X5 RETAIL GROUP

Annual Report 2007

More Than Leadership

X5 is the number **one** food retailer in Russia today

It's a unique market of **142 million** consumers

Growing at **double digits**, with the potential to be Europe's largest food retail market in **5** years' time

X5 is proud to be **leading the way** – but we can achieve **more**

More
growth and **market share** as economic **success** spreads throughout Russia

More
for our **customers** in our modern store formats with distinct **brands** and **value propositions** for every consumer

More value for **shareholders**

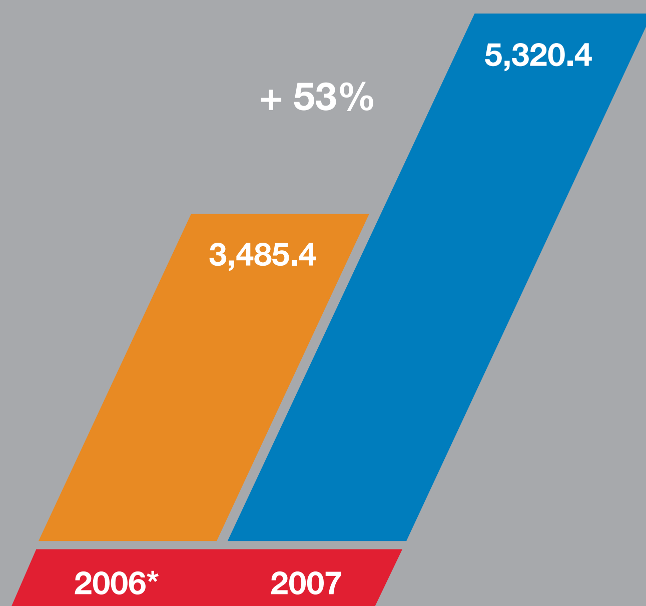
More
efficiency and operational **excellence**

Even **more strength** as a **responsible** company

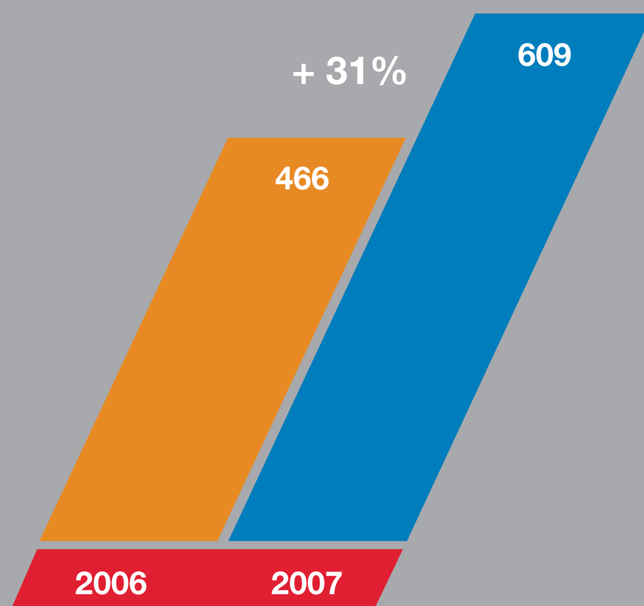
Providing **investment, employment** and **social commitment** to the communities and regions in which we operate

X5 Retail Group at 31 December 2007

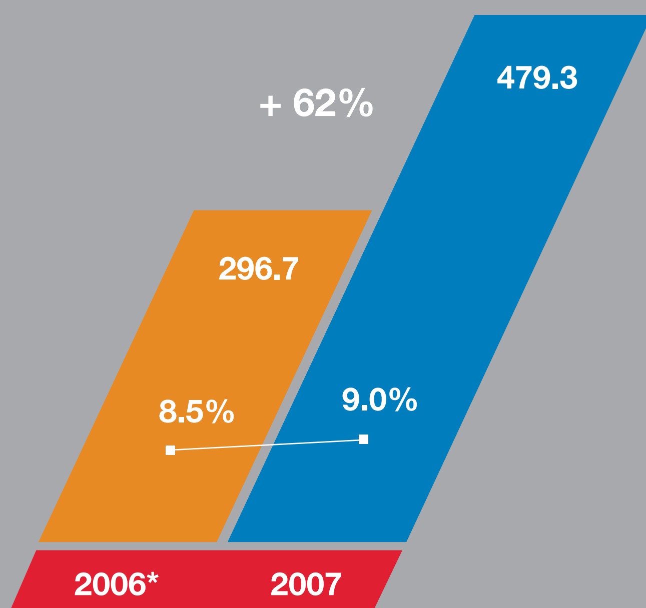
- **Number 1 retailer in Russia**
  in terms of sales
- **Multi-format operations**
  with strong regional presence
- **USD 5,320 million**
  of net sales in 2007
- **868 company-managed**
  stores in Russia and Ukraine
- **Over 609 thousand sq. m.**
  of net selling space
- **605 million customer visits**
  in 2007



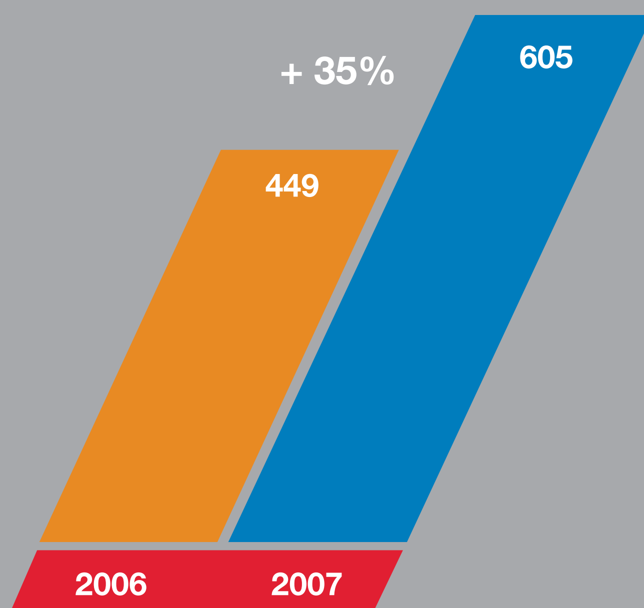
Net Sales, USD million



Selling Area, ‘000 sq.m.



EBITDA, USD million **/ EBITDA Margin,** %



Customer Visits, million

* 2006 P&L numbers represent final pro-forma results for 2006 as if the merger between Perekrestok and Pyaterochka took place on 1 January 2006 and take into account only two months (November and December) of Mercado operations. For your convenience, the Financial Review section of this Annual Report contains reconciliation of final pro-forma P&L for 2006 and the 2006 pro-forma numbers published in the Annual Report for 2006

Consolidated IFRS numbers for 2006 are provided in the Consolidated Financial Statements that are included in this Annual Report

Contents

7 **Message from the Chairman of the Supervisory Board**

9 **Letter from the Chief Executive Officer**

10 **Executive Committee**

12 **Business Strategy – More Growth**
15 Multi-Format Approach
18 Like-For-Like Store Performance
20 Geographic Expansion
23 Acquisition of Karusel Hypermarket Chain

26 **Operational Excellence – More Efficiency**
27 Supplier Relationship Enhancement
27 Logistics Infrastructure Development
28 IT Systems Upgrade
28 Human Resources Management

30 **Financial Management – More Value**
32 Financial Review
41 Shareholder Information and GDR Price Performance

42 **Corporate Governance and Community Relations – More Strength**
45 Corporate Governance Report
55 Report of the Supervisory Board
59 Remuneration Report
63 Community Relations and Corporate Social Responsibility

64 **Financial Statements**

Hervé Defforey
Chairman of the Supervisory Board

Message from the Chairman of the Supervisory Board

I am pleased to present X5 Retail Group's Annual Report for 2007, the Company's first full financial year following the 2006 merger of Pyaterochka and Perekrestok. X5's outstanding performance this year underscores its potential for growth and leadership as the number one food retailer in Russia.

X5 is benefiting from the strong growth of the Russian economy and rapid and steady increases in consumer incomes. Russia is one of the great consumer growth markets of the twenty-first century. Economic trends have been very favourable: In 2007, real GDP growth exceeded 8% and consumer spending surged almost 25% in rouble terms. The food retail market is developing very rapidly, and growth is being driven by the development of modern retail formats. X5 is at the forefront of these trends.

Throughout 2007, X5 strengthened its organisation and implemented best practices to provide the foundations for long-term growth. The Company focused on maximising its scale benefits and purchasing power with suppliers, while enhancing its store formats, customer offerings and value proposition. We invested in our logistical infrastructure to increase efficiency and support our expansion in the regions. In addition, management established or optimised the business processes, systems and human resource policies of the new Group. The Company also improved its financial disclosure to make the business more transparent.

As retailers, we depend on the country's macroeconomic development. Growth is not without its challenges, particularly inflation. Inflation in Russia is pushing up real estate prices, construction costs and salaries, and we are working hard to control operating expenses to ensure profitable growth. Rising prices are also a concern for ordinary Russians and policymakers. We've been in a position to hold prices in our stores at well below the country's inflation levels, thanks to our strategy to negotiate more favourable terms from suppliers and pass the savings on to our customers.

These efforts to win customers clearly paid off: X5 delivered strong growth in sales and profits in 2007, and X5's share price rose 40% for the year as the financial markets recognised our strong position and future growth prospects.

X5's successful strategy is delivering important benefits for our shareholders as well as our customers, employees, suppliers and partners in the Russian economy and society. We hope to deliver strong growth in 2008 as well, and I am confident that X5's management team together with its employees will continue to lead the way.

Hervé Defforey

Lev Khasis

Chief Executive Officer

**Chairman
of the Management Board**

Letter from the Chief Executive Officer

X5 delivered the highest growth in the Russian food retail sector in 2007 and reinforced its number one position in this fast-growing market. Our sales surged 53% to over $5.3 billion and exceeded management expectations. Of course, our intention is not to stop there. I would like to share X5 management's view of the critical performance drivers in 2007 and how we plan to continue our growth and expansion in 2008 and beyond.

The real story in the last year was the phenomenal customer response to our store formats and pricing strategy. The 20% like-for-like sales growth in our stores is a major accomplishment. The Company's purchasing power is getting stronger due to its growing scale, and we are able to negotiate better terms from our suppliers. Sharing these savings with our customers and working on our assortment was clearly a winning strategy. Customers knew where to go for value, choice, convenience and quality. Not only did we win customers from competitors, but we also increased the average basket size significantly.

This outstanding like-for-like growth tells us that we are on the right track. We are determined to maintain our leadership and build long-term customer loyalty. Being clear with customers about our value proposition will be even more critical for the future, especially in developed markets like Moscow and St. Petersburg. Our strategy is to reinvest more in our customers, to be closer to our customers. And customer loyalty is not just about price. To be the best in fresh – that creates loyalty. To bring more choices and solutions to our customers – that's what drives higher basket value and traffic in our stores.

In 2007 we also continued our rapid expansion. We are adding new stores – a total of 249 net additions in 2007 – in our home markets and through expansion in the European Russia and Urals. We are driving expansion both through investments in new selling space and with tactical acquisitions that give us scale in new markets and enhance our leadership in regions where we are already one of the top players.

For 2008 and beyond our investment strategy is very clear: It's the continuing multi-format expansion in Moscow, St. Petersburg and the regions, and a special focus on hypermarkets. These two priorities are reflected in our significantly stepped-up capital expenditure plan for 2008. We are very seriously looking at how we can build on our leadership position. Space in many markets is getting tighter, and obtaining quality real estate and developing larger stores requires long lead times. This means we are taking a two- to three-year approach in our strategic planning and deals with developers for large store formats.

Hypermarkets are the fastest growing segment of the market, and it is very clear to us that we need to strengthen our position in this format to complement our scale and leadership in supermarkets and soft discounters. We have developed a new hypermarket concept that will be launched in 2008 under the Mercado Supercenter brand. The concept has been carefully developed on the basis of the successful experience of European retailers, and adapted to Russian consumer tastes. Mercado is tailored to provide a unique shopping experience to all customer groups throughout the European part of Russia.

In 2008, we plan to build up X5's hypermarket network significantly, both organically and by acquisition. X5 had 15 hypermarkets at the end of 2007 and our plans call for opening eight more in 2008. Moreover, we have announced our intention to acquire the Karusel hypermarket chain subject to satisfactory due diligence. We expect this acquisition to significantly increase X5's lead over our closest competitors and provide us with immediate scale and size in hypermarkets, adding 23 stores to our network with a further three under construction. All Karusel stores will be rebranded and relaunched as Mercado Supercenters.

The last point I'd like to discuss is strong, effective cost control and improvements in operational efficiency. In 2007 we have made good progress on developing our logistics infrastructure by more than doubling the total storage area of our distribution centers. A proper IT backbone is also essential for increasing our efficiency and achieving maximum performance. We've just begun to implement a complex, multi-year information management project and our initial priority is on everything relating to retail operations, including purchasing, logistics, and inventory management.

These investments are very strategic. Not only will they enhance our efficiency in future years, but improved distribution and supply chain management will also help improve in-store availability and increase our focus on fresh – and that's a major goal for driving customer loyalty.

This has been an exciting year for strengthening our leadership in the marketplace. I'd like to thank X5's more than 44 thousand employees and managers for their hard work in making 2007's outstanding results possible. For 2008, we have set clear objectives for delivering strong double-digit sales growth and enhancing efficiency while executing our strategic expansion plans. We are determined to deliver.

Lev Khasis

Executive Committee

Leonid Terentiev
Asset Management Director

Oleg Vysotsky
Discounter Format Director

Ekaterina Stolypina
Human Resources Director

Jacquot Boelen
Supermarket Format Director
Chief Executive Officer, X5 Retail Group Ukraine

Sergey Egorov
Security Director

Evgeny Kornilov
Chief Financial Officer

Andrey Rybakov
Chief Development Director

Teimur Shternlib
Chief Information Officer

Lev Khasis
Chief Executive Officer

Tatiana Ponomareva
Strategy and Investments Director

Valentin Ponomar
Chief Administrative Director

Andrey Gusev
Mergers, Acquisitions and Business Development Director

Ekaterina Romazanova
Purchasing Director

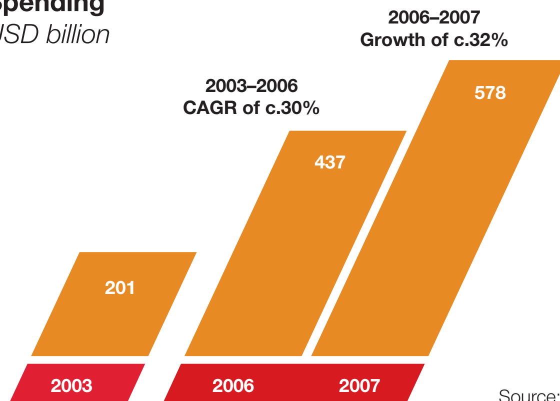
Antonio Melo
Chief Operational Officer

Yury Kobaladze
Corporate Affairs Director

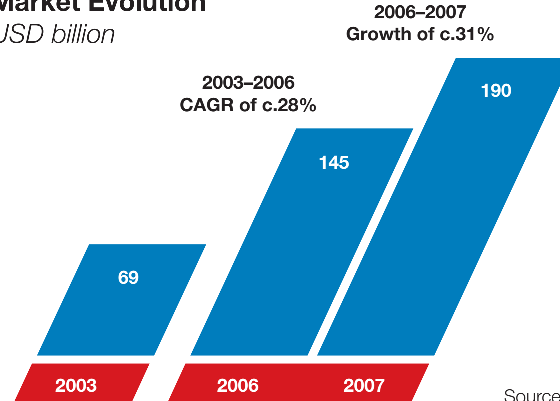
Growth

Business Strategy–More Growth

Russian Consumer Spending
USD billion



Russian Food Retail Market Evolution
USD billion



That Russia's food retail market is growing at double digits annually should come as no surprise, buoyed as it is by a growing economy and steadily rising wages. What may be more illuminating is that in several years from now, Russia is set to be the largest food retail market in Europe.

Russian consumer spending is growing strongly – it increased at an average compound rate of 30% annually from 2003 to 2006 and by another 32% in 2007. These figures closely track the growth rates for the Russian food retail market over the same period, and, modern retail formats are growing faster than the total market, increasing by a compound average growth rate of 59% for 2003 to 2006 on the back of strong organic expansion, diversion of customers from traditional retailers and consolidation.

X5 Retail Group is the number one food retailer in Russia, with 2007 sales of USD 5,320 million. But that is still below 3% of the overall market, giving us substantial scope for increasing our market leadership – both organically and by acquisition – to capitalise on unstoppable growth of modern food retailing.

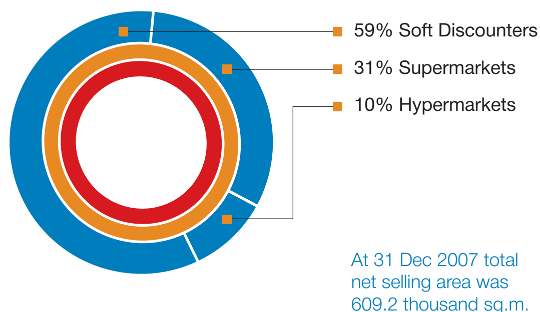
Our **Multi-Format Approach** gives us the right stores – soft discounters, supermarkets and hypermarkets – catering to Russia's diverse consumer base.

An equally important goal is to maximise **Like-For-Like Store Performance**. This means enhancing the value proposition of each of X5's formats with strong and distinct offerings to meet our customers' demands for quality, convenience, assortment, and price.

Geographic Expansion is another major growth driver for X5. We continue to add selling space in Moscow and St. Petersburg, and rapidly expand in the other parts of the European Russia and the Urals. Incomes are rising all over the country, and we are pursuing opportunities to broaden our geographic footprint and enhance X5's leadership.

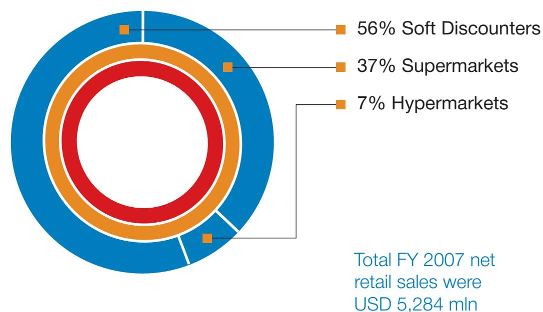
The food retail industry is an exciting part of Russia's economic transformation, and X5 is proud to be leading the way. We invite you to learn more about X5's growth strategy in the rest of our Annual Report.

2007 Net Selling Area
Break-Down by Format



At 31 Dec 2007 total net selling area was 609.2 thousand sq.m.

2007 Net Retail Sales
Break-Down by Format



Total FY 2007 net retail sales were USD 5,284 mln

Multi-Format Approach

Russians are eagerly embracing the modern shopping experience. Already in 2006, in cities with a population of more than 100,000, over one-fourth of consumer food roubles was spent in modern retail stores such as soft discounters, supermarkets and hypermarkets, but this is still well below the European average.

X5's multi-format approach positions the Company for leadership in these fast-growing market segments. It allows X5 to diversify its customer base and ensures a balance between growth and profitability, while benefiting from economies of scale in purchasing power and common infrastructure. The multi-format approach also enables X5 to integrate stores of varying sizes and retail formats more efficiently.

As at 31 December 2007, X5 operated 674 soft discount stores, 179 supermarkets and 15 hypermarkets. Our established and growing presence in all three formats gives us the ability to appeal to the broadest spectrum of Russian consumers with powerful and distinct value propositions.

Soft Discount Stores

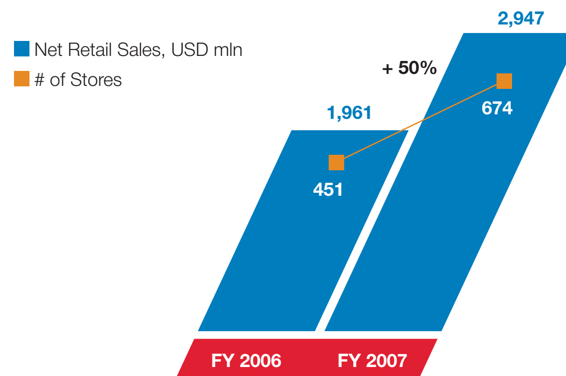
Pyaterochka is the clear leader in the soft discount segment. In 2007, it was recognised as one of Russia's ten most valuable brands. Pyaterochka's offering has been wildly successful among local neighbourhood shoppers, often of modest means. It's the store that's always around the corner or within walking distance.

At 31 December 2007, Pyaterochka operated 674 soft discount stores, with the total net selling space of 357,517 square meters or 58.7% of X5's total. Soft discount stores have net selling space between 500 and 800 square meters and offer 3,500 products on average, focusing mainly on food items.

X5's soft discount stores are characterised by simple store layouts, providing the customer with a clean, attractive environment as an alternative to open-air markets. The key customer appeals of the soft discount format are convenient store location, low prices and an attractive range of products.

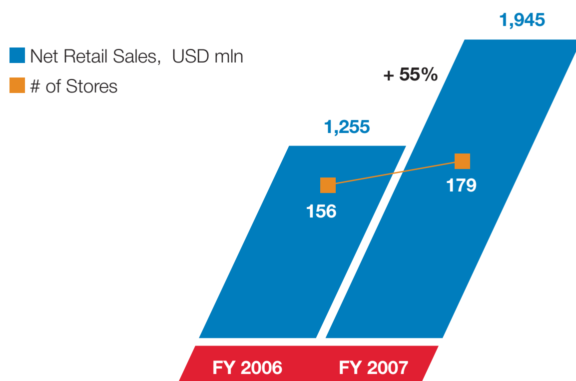
Soft discount stores focus on ensuring the lowest prices for quality goods, so as to attract a broad range of potential customers, retain repeat customers and maximise the average basket value. Pyaterochka's "Favourite Customer" loyalty card gives them a discount of between 5% and 10% on selected products, and customers receive other special promotions. X5's aim is to ensure that Pyaterochka maintains its position as a low cost operator through minimal shelf displays and store decorations, centralisation of distribution and a flat organisational structure.

Soft Discounters Store Count & Sales

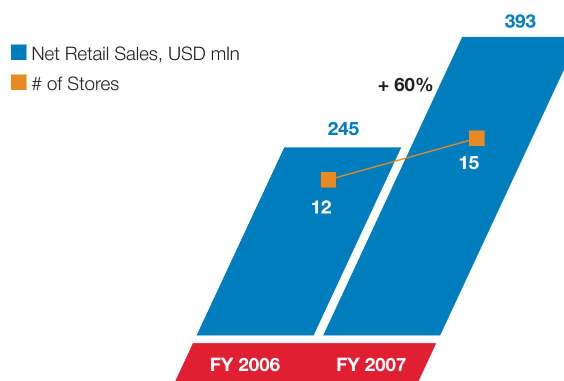


Due to the combination of low car ownership, cold climate and the relatively small apartments of many Russians, X5 seeks to locate its soft discount stores in convenient neighbourhood locations in densely populated residential areas, enabling customers to shop frequently and without having to travel long distances. X5's soft discount stores are predominantly located in residential neighbourhoods, close to customers' apartments, public transportation, major roads and intersections.

Supermarkets
Store Count & Sales



Hypermarkets
Store Count & Sales



Supermarkets

Perekrestok offers a modern European supermarket experience for Russia's rapidly growing middle and upper class, particularly among professionals and consumers able to travel by car.

At 31 December 2007, there were 179 supermarkets, with total net selling space of 191,730 square meters. Supermarkets have net selling space between 800 and 1,600 square meters and offer, on average, 15,000 items, comprised mostly of food products. Supermarkets offer a wider range of fresh products than soft discount stores, particularly fruits and vegetables, on-site bakery products, meat and seafood.

Supermarkets target middle to high income customers. The key factors underlying the appeal of the supermarkets for these customers are convenient store location, competitive prices and their focus on fresh products. X5's supermarkets are typically located in residential districts, close to or in major shopping centers that are adjacent to major traffic intersections or thoroughfares.

In response to customer demand for up-market offerings, X5 plans to launch a new supermarket concept under the "Green Perekrestok" brand name in July 2008. Green Perekrestok stores will offer an exclusive assortment of premium products and goods and ensure the highest levels of service to the growing number of high-end customers.

Hypermarkets

The third pillar of X5's multi-format approach is hypermarkets. Our strategy is to develop both compact and full size stores, tapping into the demand of families and others looking for great prices and large volumes of food and non-food items alike.

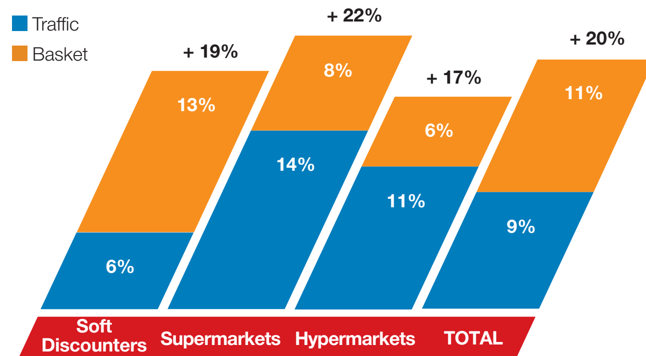
At 31 December 2007, X5 operated 14 compact hypermarkets and one full size hypermarket, with total net selling space of 59,963 square meters. Compact hypermarkets have, on average, net selling space of 4,000 square meters and offer on average 30,000 items, while full size hypermarkets have net selling space between 5,000 and 10,000 square meters and offer a range of 40,000 to 60,000 products, including various non-food goods. Key non-food product categories include clothing, electronics, home appliances and other household goods. In 2007, fresh and perishable products accounted for approximately 40% of sales.

X5 believes that customers are drawn to X5's hypermarkets because they are "one-stop shops" at competitive prices and offer a unique shopping experience for customers to purchase groceries and non-food items. Customers will typically take the car to shop at a hypermarket, most of which are located in shopping centers within the vicinity of residential areas.

X5 intends to launch a new hypermarket concept under the "Mercado Supercenter" brand name in June 2008. This concept is modeled on European retailers, but adapted to the needs and expectations of Russian consumers.

2007 LFL Performance

Based on RUR-denominated gross sales



Like-for-Like Store Performance

Improving our customer value proposition is critical to growing sales and maximising the profitability of each of our stores. It all starts with knowing our customers. Who shops at our stores? Do we have the right products at the right prices? Do we make their lives easier, healthier, richer? Do we give them a reason to shop – and come back for more?

Judging by X5's results, we've done well by our customers. Our new go-to-market strategy with increased promotions and savings for customers – made possible by our growing scale and post-merger synergy benefits – drove very powerful like-for-like (LFL) sales* growth of 20% and contributed to a 26.4% gross margin for 2007. X5's brands enjoy high name brand recognition in customer surveys, and an increasingly clear perception among customers of the brands' offerings and pricing policies.

Innovative promotional campaigns and successful customer loyalty programs resulted in increased store traffic and basket value per customer in 2007. In addition, strong like-for-like performance is being driven by an increased focus on fresh and perishable items – which accounted for over 40% of X5's sales in 2007, development of our private label brands and non-food offerings, as well as improvement of store layouts.

X5 sees private label as an important driver for like-for-like sales growth. X5 is one of the leaders in the sale of private label goods in the Russian food retail market, with sales of private label products representing approximately 8% of X5's revenue in 2007. In the long term, we aim to drive private label sales in the discount format to approximately 40-50% of total, and to approximately 25% in supermarkets and hypermarkets.

A key strategy for X5's supermarkets and hypermarkets is to ensure that customers see the stores as part of the communities in which they operate. X5 actively promotes charitable and social programs in its stores, involving customers and upholding X5's commitment to doing well by doing good. Accordingly, the stores run a number of programs for particular members of their communities, such as school children, veterans and children with critical illnesses.

Soft Discounters – Close to Customers, Everyday Low Prices

Pyaterochka, our soft-discount convenience store format, has been a clear winner in its "closest to home, lowest in price" concept. Pyaterochka offers a limited but quality assortment, and its special discount cards are a hit with local neighbourhood shoppers.

Soft discount stores reported net sales of USD 2,947 million in 2007, an increase of 50% year-on-year. Like-for-like sales

* Like-for-like (LFL) comparisons of retail sales between two periods are comparisons of rouble denominated gross retail sales (including VAT) generated by the relevant stores

The stores that are included in LFL comparisons are those that have operated for at least twelve full months preceding the beginning of the last month of the reporting period. Their sales are included in LFL calculation starting from the first day of the month following the month of the store opening. The LFL comparison for each store takes into account retail sales generated by that store during the same months it was in operation in both the reporting period and the period of comparison. The retail sales of all the relevant stores in the relevant months are then aggregated and compared. LFL sales are calculated on the basis of traffic and basket amounts of relevant stores in the period under review

For the purposes of this Annual Report LFL retail sales are calculated on a pro-forma basis, i.e. by including acquired Pyaterochka stores for the full year in each of 2006 and 2007

growth was 19%, on the back of both higher traffic and increased basket value – a very positive indicator for our go-to-market strategy. Sales per square meter of net selling space were USD 11,375, and average ticket totaled USD 9.

Sales growth in 2007 was driven in part by the increased selection of fresh and perishable products as well as non-food items introduced the previous year. Fresh and perishable products, comprising dairy products, meat and deli items, fruits and vegetables accounted for approximately 46% of sales in 2007.

Supermarkets – Quality and Convenience
Perekrestok's supermarkets cater to Russia's busy and growing middle and upper class. Saving the customer time is a key feature, as is convenient parking and locations on the way home from work.

Supermarkets reported net sales of USD 1,945 million in 2007, an increase of 55% year-on-year. LFL store sales growth reached an impressive level of 22%, mainly on the back of increased traffic. Sales per square meter of net selling space were USD 12,959, average ticket totaled USD 12.

Perekrestok offers a full range of high quality products, with a strong focus on fresh items. In the year ended 31 December 2007, fresh and perishable products accounted for approximately 41% of sales in supermarkets.

Customer loyalty is central to Perekrestok's store performance strategy. Since the launch of the Club Perekrestok program in 2006, X5 has issued approximately 500,000 cards to customers. In 2007, approximately 20% of all purchases in X5's Moscow supermarket and hypermarket stores were made by Club Perekrestok cardholders. Customers accrue bonus points that can be used to pay for future purchases. Additional bonus points are accumulated for purchases made in the morning, for private label brands and on products that are subject to special promotions – we even give special points to celebrate customers' birthdays. X5 plans to expand the Club Perekrestok program to include select third party business partners.

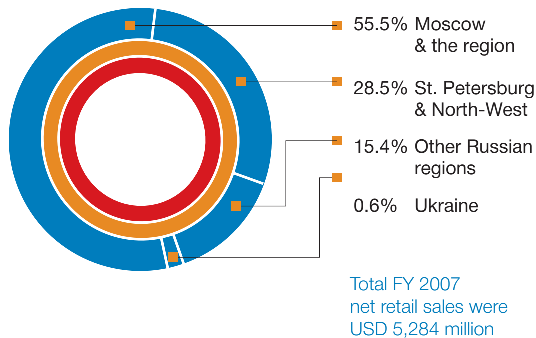
Perekrestok is also expanding its private label ranges with a segmented approach. The "Red Label" range is aimed at bargain hunters, while Perekrestok's "Blue Label" targets middle income customers with a premium range of products.

Hypermarkets – Strong Promotions in Food and Non-Food
Hypermarkets are the place to go if you want amazing prices for the entire household. X5's hypermarkets offer aggressive promotions and seasonal campaigns to drive strong sales volumes. Non-food items represent 20-30% of the assortment, providing wider choice and with an emphasis on local needs.

Hypermarkets reported net sales of USD 393 million in 2007, an increase of 60% year-on-year. Like-for-like sales growth was 17%, on the back of very strong traffic in the regions. Sales per square meter of net selling space were USD 8,909, average ticket totaled USD 16.

X5 is rolling out the Mercado Supercenter concept in 2008. The major advantages for customers that are expected to drive like-for-like store performance include low prices, assortment tailored to local market preferences, an optimal balance of food and non-food items, a customer-friendly layout for the stores, a private label bakery and deli, ample parking, as well as additional services and attractions developed in line with European retail standards.

2007 Net Retail Sales Break Down by Region



Total FY 2007 net retail sales were USD 5,284 million

Geographic Expansion

One of the most positive growth trends in Russia is the spreading regional prosperity. Economic success is no longer confined to Moscow and St. Petersburg. Incomes are rising across Russia, as are the aspirations of consumers.

The opportunities for X5 Retail Group are huge – in 2007, X5 was the largest food retailer in Russia based on revenue, but represented only 2.8% of the Russian food retail market* as a whole. Moreover, in 2007, 84% of X5's sales still came from Moscow and St. Petersburg. But the challenges are great as well. Russia is the world's largest country in terms of surface area, presenting complex marketing and distribution issues. X5 is developing its regional market leadership by concentrating as a first priority on European Russia and the Urals, which account for over 80% of the Russian food retail market.

X5 is pursuing expansion through organic store roll-out and acquisitions. Organic growth is facilitated through leasing and purchasing of real estate, including vacant land for development of stores. X5 also views the acquisition of small chains and successful franchisees as part of its organic growth. Upon acquisition, X5 integrates, rebrands, restyles and relaunches the acquired stores.

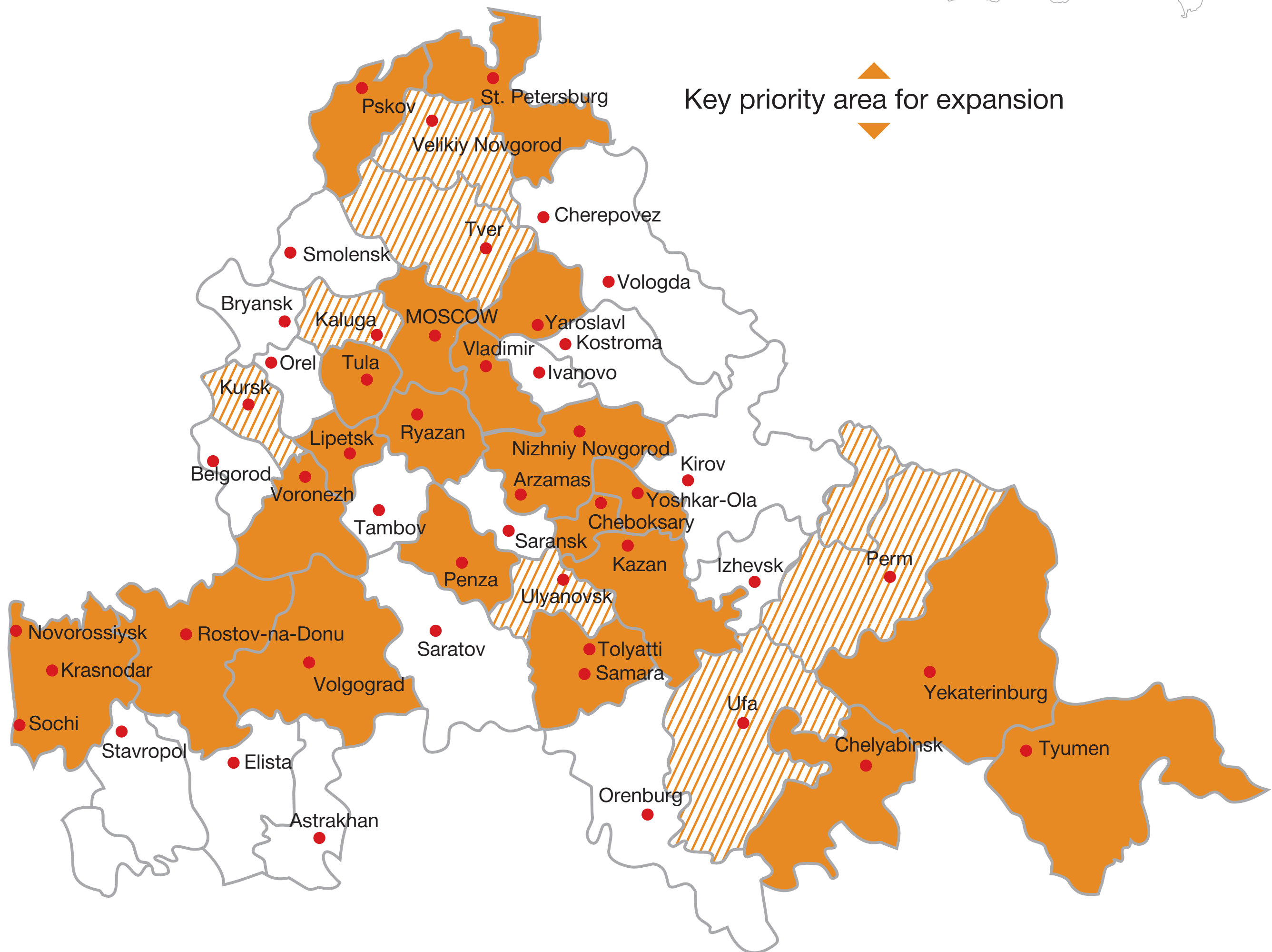
Moscow and St. Petersburg – Dominant and Growing Positions

X5 went from strength to strength in Moscow and St. Petersburg in 2007, increasing our revenue in Moscow and the region by 54% year-on-year to USD 2,935 million and in St. Petersburg and North-West – by 35% year-on-year. Stores in Moscow and Moscow region performed especially well, delivering a 25% increase in LFL sales. Moscow's performance benefited from the balanced mix of soft discounters, supermarket and hypermarkets. The 11% LFL sales growth in St. Petersburg and North-West reflects intensified competition in this region – the most competitive market in Russia. Despite significant competition faced by X5's soft discounters in St. Petersburg, resulting in 11% LFL sales growth, X5's supermarkets managed to report impressive 19% LFL revenue increase.

Russian Regions – Strong, Selective Expansion

X5 grew aggressively in European Russia and the Urals in 2007. Selling space in the regions increased by 88% or 70,391 square meters, representing almost half of the total increase for 2007. X5 had 187 stores in the regions at year end, consisting of 121 soft discounters, 55 supermarkets and 11 hypermarkets. Retail sales from the regions surged 91% to USD 843 million and accounted for 15% of X5's total revenues in 2007. Performance of regional LFL stores was very strong in 2007 – with total LFL reaching 18%.

* According to Rosstat, in 2007 the size of the total Russian food retail market was USD 190 billion



X5 Existing Operations as at December 2007

New regions to be entered in 2008

Regions	Total Area (million sq.km, %)	Total Population (million, %)
European Part of Russia and Urals	**5.7 (34%)**	**116.1 (82%)**
Siberia	5.1 (30%)	19.6 (14%)
Other Regions	6.2 (36%)	6.5 (4%)
Total	17.0 (100%)	142.2 (100%)

As at 31 December 2007

Source: Business Analytica

2007 Sales, Store Locations and Selling Space

Region	Net Selling Area ('000 sq. m.)	# of Stores	FY 2007 Net Retail Sales (USD mln)
Moscow	299.8	418	2 ,934.7
St. Petersburg	159.1	263	1 ,506.4
Nizhniy Novgorod	31.4	38	223.5
Urals	31.0	83	161.9
Lipetsk	28.2	28	64.7*
Samara	19.6	15	133.3
Other Russian regions	33.9	18	227.7
Ukraine	6.2	5	3 2.1
Total	**609.2**	**868**	**5,284.3**

* Includes only two months (November and December) of Korzinka's operations

Stepped Up Tactical M&A Transactions and Franchisee Buyouts

X5 Retail Group is pursuing tactical acquisitions in the regions as part of its organic growth. We have also begun a strategy of selective buy-outs of certain franchisees in strategically important regions. We have a successful track record of rebranding and integrating acquired stores into our multi-format network and raising their sales and profits.

In the beginning of 2007, X5 gained control of 40 soft discount stores in Chelyabinsk that had been operated by a franchisee. We also completed two tactical transactions in December 2007: X5 acquired 22 Korzinka stores operating in Lipetsk region, which are being integrated into the three formats, and 29 discount stores under the Strana Gerkulesia banner in Moscow and Tver regions. These transactions enabled us to establish market leadership in Chelyabinsk and Lipetsk regions of Russia and to strengthen our competitive positions in Moscow region and the city.

Additionally, in March 2008, X5 acquired the Kama Retail company, a Pyaterochka franchisee, operating 28 soft discount stores in Perm region, encompassing 9,300 square meters of net selling space.

2008 – a Major Expansion Year

Apart from the strategic acquisition of Karusel that we discuss in detail in the next chapter, in 2008 X5 expects to add between 140,000 and 160,000 square meters of net selling space (net of potential store closings) through organic growth and tactical acquisitions. As part of the above mentioned expansion program, in 2008 X5 plans to open eight hypermarkets comprised of six compact hypermarkets and two full size stores. Excluding strategic acquisitions, the Company's 2008 CapEx is estimated at USD 1,200–1,400 million, about 40% of which will be spent on the stores to be opened after 2008, including expansion of the land bank for future hypermarket construction.

Acquisition of Karusel Hypermarket Chain

In January 2008, X5 exercised an option to acquire the entire issued share capital of Formata Holding B.V., which owns and operates the chain of Karusel hypermarkets. The acquisition was approved by X5's Supervisory Board on 10 April 2008. In May 2008 X5 has received the approval from the Federal Anti-Monopoly Ministry to acquire Karusel. Now the Company is finalising the due diligence and subject to its satisfaction with the due diligence results plans to proceed to closing of the acquisition.

The Karusel brand of hypermarkets began operating in 2004. At 31 December 2007, Karusel was the fifth largest hypermarket operator in Russia by sales and net selling area. At 31 March 2008, there were 23 operational Karusel hypermarkets and three more under construction. The hypermarkets are located on the outskirts of several of Russia's largest cities, including four hypermarkets close to or in the Moscow region, 13 hypermarkets in St. Petersburg, two hypermarkets in North-West and one hypermarket in each of Volgograd, Izhevsk, Nizhniy Novgorod and Dzerzhinsk. Three further hypermarkets are under construction in Yekaterinburg, Yaroslavl and St. Petersburg.

Karusel stores vary in size, with net selling space ranging from 3,500 square meters to 11,500 square meters. At 31 December 2007, Karusel hypermarkets occupied a total net selling area of approximately 115,000 square meters.

In 2007 the Formata Group reported revenue of USD 831 million, an increase of 130% year-on-year. Its 2007 gross profit was USD 206.7 million, while net profit for the year was USD 19.9 million.

The acquisition of the Karusel hypermarket chain will represent a significant milestone in the development of X5's business and will enable the Company to:

- reinforce its position as Russia's largest food retail operator in terms of revenue and significantly increase X5's lead ahead of its closest competitors;
- immediately establish a leading position in the hypermarket format, the fastest growing food retail format in Russia;
- enhance the Company's scale and efficiencies in the regions of its operations as Karusel's stores are complementary to existing regional presence of X5;
- enhance X5's asset base with high quality locations and real estate ownership; and
- extract significant synergies from the combination of the two businesses.

Upon acquisition of the Karusel hypermarkets under the Call Option Agreement, X5 will operate 39 hypermarkets with three additional stores under construction. In terms of 2007 sales, the combined entity would rank as the number four hypermarket operator in Russia, with a 23.8% share among the top 10 food retailers plus Karusel and a 3.2% share of the total Russian food retail market*.

X5 plans to rebrand and relaunch Karusel hypermarkets under the Mercado brand in the second half of 2008. X5 expects to spend approximately USD 150 million in 2008 and 2009 to fully rebrand and integrate the Karusel stores.

In order to finance the acquisition of Karusel and associated rebranding, restyling and integration costs, in May 2008 we successfully completed USD 1,026 million offering of rights to existing shareholders to acquire newly issued GDRs in the Company. The deal was strongly supported by our shareholders as it gave them priority in benefiting from Karusel's contribution to X5's growth strategy.

* According to Rosstat, in 2007 the size of the total Russian food retail market was USD 190 billion

Operational
Excellence
Efficiency

Operational Excellence – More Efficiency

Operational excellence is all about increasing the efficiency of the business as a foundation for long-term market leadership and profitable growth. In a fast-growing business like ours, this efficiency focus is absolutely critical for protecting margins while executing ambitious geographic expansion and investment plans.

This was X5 Retail Group's first full year of operations as a combined company following the merger of Pyaterochka and Perekrestok in 2006. We delivered strong growth and plan to continue on this path, leveraging our increasing scale and purchasing power to drive performance. At the end of the day, it's our customers who benefit from X5's efficiency, in the form of improved store offerings and the ability to reinvest in our value propositions.

We're proud to say that X5 won important awards this year for "Best Retail Chain" and "Most Professional Managers" in the retail sector. Enhancing the potential of our people is a major focus for X5, and we are delighted to receive this kind of industry recognition, which can only be made possible by X5's employees and managers.

We are now reinforcing our efficiency focus both at the operational and headquarters level by investing in logistics capacity, upgrading the IT infrastructure and optimising business processes. While we do not expect to see an immediate financial return on these measures, we believe they are critical for strengthening X5's competitive position and maximising performance in the coming years.

Supplier Relationship Enhancement

X5 considers relationships with suppliers as one of its key competitive strengths and areas for further enhancement. Favourable purchasing terms and cooperation with suppliers on promotional activities enable us to constantly re-invest in customer loyalty and ensure strong traffic at our stores.

As X5's sales volumes grow, driven by increases in market share and expansion throughout the European regions of Russia and the Urals, we become an even more attractive customer for suppliers. Our purchasing terms reflect that. X5 receives various types of promotional allowances, bonuses and volume discounts that effectively reduce our cost of goods sold or marketing expenses and thus enhance gross margin.

More than half of X5's supplies are negotiated centrally to optimise buying benefits; the remainder, mainly consisting of local produce, is sourced from the surrounding areas.

At 31 December 2007, X5 sourced from approximately 4,000 suppliers. X5's ten largest suppliers accounted for approximately 10% of total purchasing.

X5 is constantly working to consolidate its position with both national and local suppliers to secure further price discounts and other favourable terms. This increased purchasing power is essential for our competitive position and our ability to pass savings on to our customers.

Logistics Infrastructure Development

Geographic expansion in the Russian regions is set to be a major driver of X5's growth for the next several years. Russia presents unique operational challenges for retailers, particularly in the area of distribution logistics and supply chain management. The distances are staggering and require effective local and regional solutions. Much of Russia's transport infrastructure needs to be modernised with the help of long-term government and private sector investment programs.

Improved logistics infrastructure will enable X5 to significantly enhance its operational efficiency and competitiveness. To take advantage of growth in the Russian regions, X5 is implementing an ambitious long-term project to build an integrated logistics infrastructure across the European part of Russia and the Urals. It will be based on a network of multi-format distribution centers located in all big cities in the regions of X5 operations.

During 2007, X5 focused on improving the efficiency of its warehousing and distribution functions. X5 also established a supply chain management function to oversee the entire logistics chain from supplier to store. We opened six new distribution centers, and closed one facility in Moscow, resulting in a 78.1 thousand square meters or over 100% increase in total warehousing capacity. At the end of 2007 the Group had 10 distribution centers with total storage area of 143.7 thousand square meters, including four centers in Moscow, three centers in St. Petersburg, and three smaller distribution centers in Nizhniy Novgorod, Chelyabinsk and Yekaterinburg.

We are expanding X5's owned storage space and transportation fleet in the regions in which we operate, with the aim of increasing the volume of deliveries to our stores from X5's distribution centers. This is both more effective and profitable than deliveries from multiple suppliers directly to the stores. This will support our goals for improving working capital and reducing inventory in the supply chain, while maximising in-store labor productivity and store area utilisation. All of these improvements have a direct impact on our bottom line while also enhancing our competitive position with customers. Greater efficiency provides the financial resources to invest in promotional campaigns and private label assortment, while improving in-store product availability and opportunities to enhance our fresh offerings.

X5 plans to increase its strategic investments in infrastructure to support its expansion plans. These investments will take place primarily in distribution and IT systems.

IT Systems Upgrade

Investments in information systems are essential for managing our operations and supplier relationships, enhancing our financial returns and planning X5's strategic development. The introduction of a modern enterprise resource planning (ERP) system will provide a strong platform to support our future growth.

Following extensive due diligence, X5 selected SAP as its technology partner. Over the past year, we have prepared the groundwork for the phased implementation of systems upgrades. In March 2008, we launched the implementation of the SAP for Retail system. This will facilitate controls over processes across all major levels of Company management, from store operations to strategic planning.

The introduction of the SAP system will be conducted in stages. The first phase of implementation is scheduled to be completed by the end of 2009 and will cost an estimated USD 35 million. It will create a technological platform to manage retail operations, including transactions, purchasing, and logistics, as well as inventory and accounting. This will standardise business processes in the Company's operational activities, optimise the receipt of combined managing reports on store operations, and create a platform to implement future steps of SAP functionality, including expanding functional financial models.

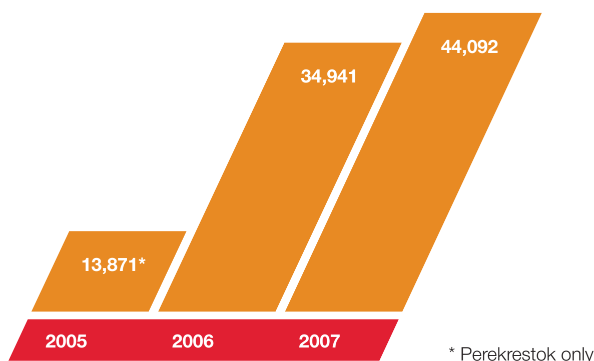
Human Resources Management

X5 Retail Group employed 44,092 people as of the end of 2007, up from 34,941 in 2006. Effective human resource management is a major focus for driving productivity and quality throughout our operations, reducing staff turnover and successfully integrating newly acquired retail chains and assets.

In 2007, X5 created a unified human resources organisation. Group HR systems were integrated and HR functions and processes established or optimised to oversee compensation and benefits policy, performance management, organisational development, training, outsourcing, regional HR management, and development of our corporate culture. We established a unified system of budgeting and controlling staff-related expenses, and formulated a transparent compensation and benefits policy with competitive salary-indexing based on market comparisons.

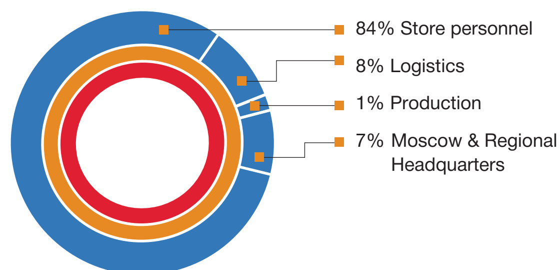
X5 has placed major emphasis on strengthening the skills and potential of key managers through professional development, training and performance management. The Company formalised its performance management policies and systems, and set 2008 objectives and development plans for various levels of managers. X5 also delineated the job classifications, skills requirements and expectations for professional conduct for managers and began implementing succession management, training & development and assessment processes in order to manage the career paths of our people throughout X5's growing organisation.

End of Year
Number of Employees



* Perekrestok only

2007 Staff Breakdown
by Function



X5 is committed to recruiting and retaining highly skilled personnel, and to promoting from within whenever possible. On 1 August 2007, X5 began a program for the development and promotion of talented managers. X5 intends to continue developing and expanding this program to retain talented managers. By the end of 2008, we expect to implement new measures to evaluate store manager performance according to their store turnover ratio and like-for-like results, set new salary benchmarks to determine salaries for basic personnel at market rates and institute new packages comprising a range of benefits such as parking, meals and medical insurance.

As part of its commitment to motivating key executives and managers to give their best to driving the Company forward, X5 in 2007 approved an Employee Stock Option Plan (ESOP). X5 management currently intends that the ESOP will be offered to approximately 180 employees, linked to measurable performance targets. Further details of the ESOP are provided in Note 30 to Consolidated Financial Statements that are included in this Annual Report.

Value

Financial Management – More Value

Financial Review

X5 Retail Group's first full financial year as a combined company was a success, with strong growth in sales and profitability. The Company solidified its position as Russia's number one food retailer, thanks to its successful multi-format strategy, strong customer offerings and regional expansion. As a result, total net retail sales grew 53% to USD 5,320 million in 2007. EBITDA rose 62% to USD 479 million, and net profit increased 41% to USD 144 million.

X5 expects to continue on this exciting path in 2008. Our objectives are to deliver strong double-digit sales growth while maintaining profit margins. The Company's investment program will be stepped up to support X5's growth targets and plans for market leadership in 2008 and beyond, and the management team is focused on efficiently managing these resources in order to deliver profitable growth and create value for our shareholders.

P&L Highlights

USD mln	FY 2007	FY 2006 Pro-Forma*	*% change, y-o-y*
Net Sales, incl.	**5,320.4**	**3,485.4**	***53%***
Net Retail Sales	*5,284.3*	*3,460.4*	*53%*
Gross Profit	**1,403.9**	**928.9**	***51%***
Gross Margin, %	*26.4%*	*26.7%*	
EBITDA	**479.3**	**296.7**	***62%***
EBITDA Margin, %	*9.0%*	*8.5%*	
EBIT	**336.9**	**210.3**	***60%***
EBIT Margin, %	*6.3%*	*6.0%*	
Net Profit	**143.7**	**102.2**	***41%***
Net Margin, %	*2.7%*	*2.9%*	

* 2006 P&L numbers represent final pro-forma results for 2006 as if the merger between Perekrestok and Pyaterochka took place on 1 January 2006 and take into account only two months (November and December) of Mercado operations. These numbers also include reclassification of product handling and delivery expenses from SG&A to Cost of Sales. Reconciliation of final pro-forma P&L for 2006 and the 2006 pro-forma numbers published in 2006 Annual Report is provided further in this Section

Consolidated IFRS numbers for 2006 are provided in the Consolidated Financial Statements that are included in this Annual Report

Net Retail Sales Performance

USD mln	FY 2007	FY 2006	*% change, y-o-y*
Hypermarkets	392.7	244.9	*60%*
Supermarkets	1,944.8	1,254.5	*55%*
Soft Discounters	2,946.8	1,961.0	*50%*
Total Net Retail Sales	**5,284.3**	**3,460.4**	***53%***

Total net retail sales for 2007 increased to USD 5,284 million – a year-on-year increase of 53% in USD terms (44% in RUR terms). This impressive retail sales surge was driven by the very strong performance of soft discounters in the regions and in Moscow, outstanding results delivered by supermarkets across all regions and improving performance of hypermarkets opened at the end of 2006.

Gross Profit & Gross Margin Analysis

USD mln	FY 2007	FY 2006	*% change, y-o-y*
Gross Profit	**1,403.9**	**928.9**	***51%***
Gross Margin, %	26.4%	26.7%	

For the full year 2007, gross profit increased by 51% to USD 1,404 million and full year 2007 gross margin amounted to 26.4% compared to 26.7% in 2006.

The high gross margin in 2006 was achieved as a result of significant discounts from suppliers obtained in the fourth quarter of the year as a result of renegotiations of purchasing contracts following the merger of Pyaterochka and Perekrestok. In 2007 the Company took advantage of its enlarged scale and invested a portion of its post-merger margin enhancement into its customer loyalty. This reinvestment in our value propositions proved to be a success, leading to very strong traffic growth and increased sales and market share.

Selling, General and Administrative Expenses (SG&A)*

USD mln	FY 2007	FY 2006	*% change, y-o-y*
Staff Costs, incl.	(517.8)	(370.0)	*40%*
% of Net Sales	*9.7%*	*10.6%*	
ESOP	(47.7)	(64.6)	*-26%*
% of Net Sales	*0.9%*	*1.9%*	
Lease Expenses	(172.9)	(113.5)	*52%*
% of Net Sales	*3.3%*	*3.3%*	
Other Store Costs	(90.7)	(56.5)	*61%*
% of Net Sales	*1.7%*	*1.6%*	
D&A	(142.4)	(86.4)	*65%*
% of Net Sales	*2.7%*	*2.5%*	
Utilities	(78.1)	(42.1)	*85%*
% of Net Sales	*1.5%*	*1.2%*	
Third Party Services	(70.0)	(51.4)	*36%*
% of Net Sales	*1.3%*	*1.5%*	
Other Expenses	(63.2)	(39.5)	*60%*
% of Net Sales	*1.2%*	*1.1%*	
Total SG&A	(1,135.0)	(759.4)	*49%*
% of Net Sales	*21.3%*	*21.8%*	

For the full year 2007, SG&A costs increased by 49% year-on-year to USD 1,135 million, primarily due to higher staff costs, lease expenses and depreciation & amortisation charges.

Staff Costs

For the full year 2007, staff costs, including Employee Stock Option Plan (ESOP) expense** totaled USD 518 million and increased by 40% compared to 2006.

Net of ESOP costs – which in 2006 included a one-off restructuring expense relating to the Pyaterochka's ESOP – full year 2007 staff costs grew by 54% on the back of continuing wage inflation and extensive hiring for new store openings.

ESOP costs for 2007 totaled USD 48 million, representing proportionally accrued expenses related to the first and the second tranches of the current ESOP. In 2006 the Company reported a USD 65 million ESOP-restructuring charge (excluding USD 4 million in related auxiliary expenses).

* Please note that all SG&A expenses provided in the above table are net of logistic expenses as those were reclassified to Cost of Sales. 2006 numbers also include other reclassifications aimed at ensuring consistency of the comparative data

** Please see Note 30 to the Consolidated Financial Statements for more information on X5 ESOP

Lease Expenses

Full year 2007 lease expenses totaled USD 173 million, an increase of 52% year-on-year. As a large proportion of the Group's stores are owned, X5's exposure to the growth in rents in the Russian commercial property market was partially reduced.

Depreciation & Amortisation

Full year 2007 D&A charges totaled USD 142 million, an increase of 65% year-on-year. The increase in D&A expenses is attributable to the Group's aggressive expansion in terms of selling space and distribution centers.

Non-Operating Gains and Losses

USD mln	FY 2007	FY 2006	*% change, y-o-y*
Operating profit	**336.9**	**210.3**	***60%***
Finance costs (net)	(125.8)	(71.8)	*75%*
Net foreign exchange gain	31.5	14.7	*114%*
Profit before tax	**242.6**	**153.3**	***58%***
Income tax expense	(98.9)	(51.1)	*94%*
Profit for the year	**143.7**	**102.2**	***41%***

Finance Costs

Full year finance costs totaled USD 126 million – an increase of 75% year-on-year. This is explained by an increase in outstanding debt as well as one-off debt restructuring costs in the amount of approximately USD 23 million incurred in the third quarter of 2007 for the purpose of improving the Group's financing terms and debt structure.

Foreign Exchange Gain/ (Loss)

Full year foreign exchange gain amounted to USD 32 million due to the significant depreciation of the U.S. dollar against the Russian rouble during the year. As X5 Retail Group employs a hedging strategy to minimise its foreign exchange and interest rate exposure, FX gains on its USD 1 billion denominated bridge loan were partially offset by the mark-to-market result on the hedging facility. The Company continues to apply its hedging policy and has hedged its new USD 1.1 billion syndicated loan raised in December 2007.

Income Tax

X5's effective tax rate for the full year 2007 was 41%. The Company recorded a 35% effective tax rate in the fourth quarter and is undertaking measures to further improve its tax efficiency.

Selected Balance Sheet Data

USD mln	31 December 2007	31 December 2006	*% change, y-o-y*
ASSETS			
Non-Current Assets, incl.	**5,660.9**	**4,460.5**	***27%***
Property, plant and equipment & investment property	2,117.4	1,305.8	*62%*
Goodwill	2,934.2	2,629.0	*12%*
Intangible assets	523.5	492.3	*6%*
Current Assets, incl.	**861.5**	**632.0**	***36%***
Inventories of goods for resale	325.0	208.6	*56%*
Cash	179.5	168.0	*7%*
Total Assets	**6,522.4**	**5,092.5**	***28%***
EQUITY AND LIABILITIES			
Total Equity	**3,243.7**	**2,890.1**	***12%***
Non-Current Liabilities, incl.	**1,726.4**	**1,133.9**	***52%***
Long-term borrowings	1,464.7	949.1	*54%*
Current Liabilities	**1,552.3**	**1,068.5**	***45%***
Short-term borrowings	253.7	218.0	*16%*
Total Liabilities	**3,278.7**	**2,202.4**	***49%***
Total Equity and Liabilities	**6,522.4**	**5,092.5**	***28%***
Net Debt	**1,538.9**	**999.1**	***54%***
Net Debt/EBITDA	**3.2x**	**3.4x**	
Net Working Capital (Net of Short Term Debt)	**(437.1)**	**(218.5)**	***100%***

Balance Sheet – Key Trends and Developments

Non-Current Assets

At the end of 2007 PP&E and investment property amounted to USD 2,117 million, an increase of 62% year-on-year. This increase is attributable to organic expansion and tactical M&A transactions closed during 2007.

At the end of 2007, Goodwill totaled USD 2,934 million versus USD 2,629 million at the end of 2006. The majority of the amount reported at 31 December 2006 was associated with the reverse acquisition of Pyaterochka, while a USD 305 million increase in 2007 was generated from tactical acquisitions in the amount of USD 116 million and foreign exchange revaluation adjustment in the amount of USD 189 million.

Current Assets

Current assets increased by 36% to USD 862 million. The increase was lower than revenue growth and was attributable to higher VAT and other taxes recoverable as well as an increase in inventories in line with sales growth.

Non-Current Liabilities

Non-current liabilities totaled USD 1,726 million, an increase of 52% year-on-year, mainly due to higher amount of long-term outstanding debt (USD 1,465 million as of 31 December 2007).

During 2007 X5 focused on optimisation of its debt portfolio for the purpose of improving the Company's financing terms and debt structure.

Current Liabilities

Current liabilities grew 45% year-on-year to USD 1,552 million. This increase is primarily explained by growth in trade and other accounts payable as X5 managed to improve its payment terms with suppliers and other counterparties in 2007.

Cash Flow – Key Trends and Developments

USD mln	31 December 2007	31 December 2006*
Net Cash from Operating Activities	427.5	316.9
Net Cash Used in Investing Activities	(898.8)	(40.9)
Net Cash from / (Used in) Financing Activities	470.0	(138.1)
Effect of Exchange Rate Changes on Cash	12.8	0.2
Net Increase in Cash	**11.5**	**138.1**

* 2006 cash flow numbers take into account Pyaterochka's cash flow only since the date of the merger – 18 May 2006

Cash Flow from Operating Activities

Net cash from operating activities totaled USD 427 million on the back of strong operating performance and an improvement in working capital.

USD mln	31 December 2007	31 December 2006*
Increase in Trade and Other Accounts Receivable	(65.1)	(61.9)
Increase in Inventories	(77.0)	(76.8)
Increase in Trade Payable	330.1	235.6
(Decrease) / Increase in Other Accounts Payable	(48.2)	52.7
Changes in Working Capital	**139.8**	**149.6**

The increase in trade and other accounts receivable is explained by growth in X5's scale of business and, as a result, higher supplier bonuses and allowances.

The increase in inventories is explained by the same factor, however, going forward, as X5 continues to develop its logistics infrastructure and increase its levels of supply centralisation, these initiatives should have positive impact on inventories turnover and, hence, the Company's working capital.

The increase in trade accounts payable is a result of two key factors: higher volume of purchases from suppliers and better supplier terms reflecting an improvement of X5's purchasing power.

The decrease in other accounts payable is mainly attributable to cancellation fees reported in 2006 but paid in 2007 with respect to Pyaterochka's ESOP in the amount of approximately USD 65 million.

Cash Flow Used in Investing Activities

Net cash used in investing activities totaled USD 899 million, as the Company continued to add selling space and invested in its distribution infrastructure development.

USD mln	31 December 2007	31 December 2006**
Cash Flows Used in Investing Activities, incl.		
Purchase of Property, Plant and Equipment & Investment Property	(629.4)	(256.6)
Acquisition of Subsidiaries, Including Loans Issued, Net of Cash Acquired	(231.6)	227.9
Net Cash Used in Investing Activities	**(898.8)**	**(40.9)**

* 2006 cash flow numbers take into account Pyaterochka's cash flow only since the date of the merger – 18 May 2006

** USD 227.9 million positive impact on the investing cash flow in 2006 was a one-off item attributable to the reverse acquisition of Pyaterochka and associated with the accounting treatment of the transaction

In total, X5 added 31% in net selling space during 2007. The total net selling area increased by 143.1 thousand square meters. This takes into account 3.6 thousand square meters that were closed during the year (8 soft discounters and 2 supermarkets) and includes stores acquired through tactical M&A transactions. Net addition of stores totaled 249, of which 223 were in soft discount format, 23 were supermarkets and 3 were hypermarkets.

During 2007 X5 also added net five distribution centers (DCs) (one DC in Moscow was closed), increasing its storage capacity by 78.1 thousand square meters.

A step-up in 2007 capital expenditure (CapEx) is explained by the 9% weakening of the U.S. dollar against the rouble, and inflation in real estate and construction prices. In addition, a larger than planned amount (about 20% of full year CapEx) was spent on stores to be opened in 2008 and beyond.

Cash Flow from Financing Activities

Net cash from financing activities amounted to USD 470 million as the Company raised funds to finance its capital expenditure program.

USD mln	31 December 2007	31 December 2006*
Cash Flows from Financing Activities, incl.		
Proceeds from Loans	2,042.2	674.3
Repayment of Loans	(1,563.3)	(432.4)
Distribution to Shareholders	-	(300.0)
Net Cash from / (Used in) Financing Activities	**470.0**	**(138.1)**

During 2007, X5 optimised its debt portfolio and as a result decreased its cost of funding and improved its debt structure. The steps undertaken by X5 included rouble debt refinancing replacing a substantial portion of the three outstanding bonds previously issued by Pyaterochka and Perekrestok in the total amount of RUR 6 billion with one 7-year bond (puttable in 3 years) with an interest of 7.6% and a notional amount of RUR 9 billion (USD 352 million as at the date of issue). Additionally, X5 has replaced its previous syndicated loan with a USD 1.1 billion facility bearing interest of LIBOR + 225 basis points p.a. during the first year. Starting from the second year, spread over LIBOR on this facility will decrease to 200 basis points or lower depending on the Company's Net Debt/EBITDA ratio.

As a result of these measures, at the end of 2007 over 85% of X5's outstanding debt was long-term, while the effective interest rate was 7.1%.

* 2006 cash flow numbers take into account Pyaterochka's cash flow only since the date of the merger – 18 May 2006

USD 300 million negative impact on the financing cash flow in 2006 was a one-off item attributable to the reverse acquisition of Pyaterochka and associated with the accounting treatment of the transaction

Reconciliation of Final Pro-Forma P&L for 2006 and the 2006 Pro-Forma Numbers Published in 2006 Annual Report

	FY 2006	Step 1	Step 2	Step 3	FY 2006
USD mln	As published in the Annual Report for 2006	Logistics Reclassification	D&A	Mercado Jan-Oct 06	Final Pro-Forma
Net Sales, incl.	**3,551.5**			**(66.1)**	**3,485.4**
Cost of Sales	(2,562.0)	(42.3)		47.8	(2,556.5)
Gross Profit	**989.5**			**(18.3)**	**928.9**
Gross Margin, %	*27.9%*			*n/a*	*26.7%*
SG&A	(808.8)	42.3	(17.9)	25.0	(759.4)
Lease/Sublease and Other Income	43.8			(3.0)	40.8
EBITDA before ESOP	**360.0**			**1.3**	**361.3**
EBITDA Margin, %	*10.1%*			*n/a*	*10.4%*
EBITDA	**295.4**			**1.3**	**296.7**
EBITDA Margin, %	*8.3%*			*n/a*	*8.5%*
EBIT	**224.5**		**(17.9)**	**3.7**	**210.3**
EBIT Margin, %	*6.3%*			*n/a*	*6.0%*
Profit Before Tax	**159.5**		**(17.9)**	**11.7**	**153.3**
Income Tax Expense	(56.7)		4.3	1.3	(51.1)
Net Profit	**102.8**		(13.6)	**13.0**	**102.2**
Net Margin, %	*2.9%*			*n/a*	*2.9%*

Step 1: Product delivery and handling expenses were reclassified from SG&A to Cost of Sales.

Step 2: In line with IFRS requirements for pro-forma reporting, additional depreciation and amortisation (D&A) charge was reported as if the merger between Perekrestok and Pyaterochka took place on 1 January 2006. As a result Pyaterochka's assets were revalued at market price as at 1 January 2006 and not 18 May 2006.

Step 3: 10 months of Mercado operations (January through October) were excluded from final 2006 pro-forma P&L. The management believes that for the purposes of financial reporting, a pro-forma approach should only be applied to strategic large size acquisitions, while small tactical M&A transactions are reported on consolidation basis as at the date of the purchase.

Shareholder Information and GDR Price Performance

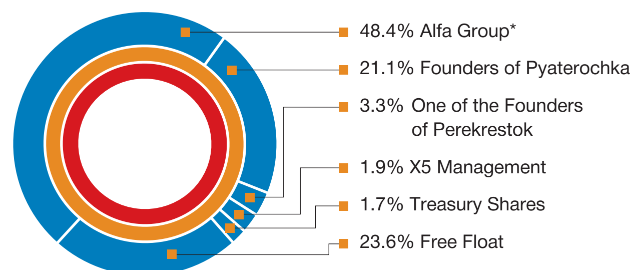
As at 31 December 2007, X5's share capital consisted of 54,120,038 issued ordinary shares with a nominal value of €1.00 each. During 2006 and 2007 the Company repurchased 942,278 ordinary shares (Treasury Shares) for general corporate purposes including the funding of the Employee Stock Option Plan (ESOP) liabilities, and for potential acquisitions.

The Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs) (LSE ticker: FIVE). Each GDR represents an interest of 0.25 in an ordinary share. As at 23 April 2008, X5's publicly traded float was equivalent to 26.6% of the Company's total share capital.

X5's GDR price increased 40% in 2007 to close the year at USD 36.5 per GDR, as the financial markets appreciated the Company's strong fundamental performance. As at 31 December 2007, X5's total market capitalisation was worth USD 7.9 billion.

In May 2008 X5 successfully completed USD 1,026 million offering of rights to existing shareholders to acquire newly issued GDRs in the Company with the purpose of financing the acquisition of Karusel and associated rebranding, restyling and integration costs. As a result of the offering, X5's share capital increased from 54,120,038 to 66,146,713 issued ordinary shares, an equivalent of 264,586,852 GDRs.

X5 Share Capital as at 23 April 2008

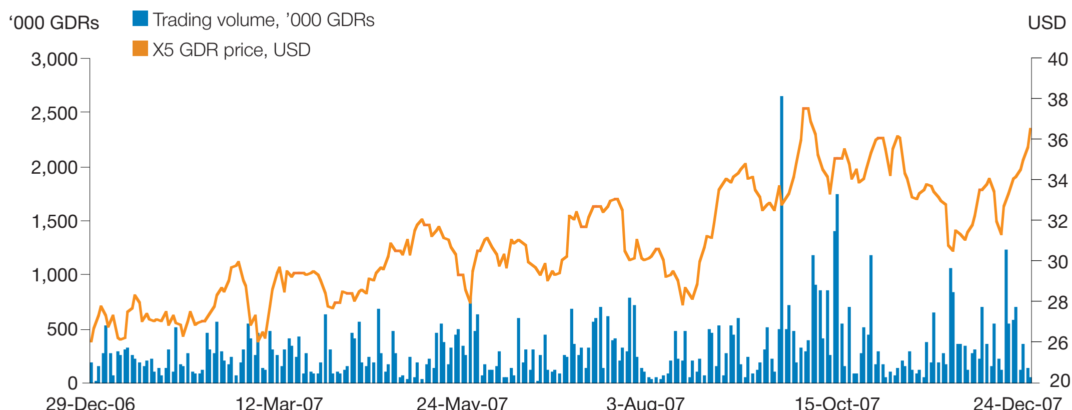


Total number of shares – 54,120,038

Equivalent of 216,480,152 GDRs

* Approximately 5% are subject to a financing arrangement with a bank

X5 2007 GDR Price Performance



Corporate Governance & Community Relations

Strength

Corporate Governance & Community Relations – More Strength

X5 Retail Group is a Netherlands-registered corporation listed on the London Stock Exchange with operations in the Russian Federation, and strictly adheres to the laws and regulations of these jurisdictions. X5 is committed to being a responsible corporate citizen that strives to meet international standards and best practices in the way we run our business and in our relationships with shareholders, partners and society.

We believe this strengthens X5 as a company:

Good corporate governance and transparency help X5 to build trust and support in the financial community, lowering our cost of capital and enhancing our strategic opportunities. Operating according to best international industry practices and principles makes X5 an attractive employer and business partner for suppliers, real estate lenders, franchisees and newly-acquired chains.

Providing investment, employment and social commitment in the communities and regions in which we operate solidifies our relationship with our customers and with local governments. Thanks to active expansion in the regions, X5 is positioned to create tens of thousands of new jobs and generate additional tax resources that contribute to regional economic development.

X5 sees its social mission as helping to foster a responsible attitude among Russian business towards societal problems. X5's active programs and financial commitments to promote sport, children's health and education align our corporate culture with the betterment of people and society.

Corporate Governance Report

As a Dutch public limited liability company whose global depositary receipts are listed on the London Stock Exchange, X5 Retail Group N.V. is required to comply with the Dutch Corporate Governance Code either by applying its provisions or explaining why it deviates from any provision. Our corporate governance policies with respect to the implementation of the Code were discussed with our shareholders at the 2006 Annual General Meeting of Shareholders.

In accordance with the Dutch Corporate Governance Code, a broad outline of the corporate governance structure of the Company is presented in this section, including any deviations from the Code's best practices. The Company adheres to these best practices to the extent possible and desirable.

X5 Retail Group N.V. adopted a two-tier system of corporate governance, comprising a Management Board and a Supervisory Board.

Management Board

The Management Board is responsible for X5's overall management. It is accountable for the pursuit and achievement of corporate goals and objectives of the Company, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities, for financing and external communication. The Management Board is required to report related developments to, and discusses the internal risk management and control systems with the Supervisory Board and its Audit Committee.

The Management Board currently consists of three members. The table below shows the current members of X5's Management Board and their terms of appointment.

Lev Khasis

Mr. Khasis, a Russian citizen, is the former Chairman of the Perekrestok Supervisory Board and a founding member of Investment Company Fosbourne, which invests in various businesses, including retail businesses in Russia. In addition to his activities at Perekrestok, Mr. Khasis has held a number of senior board and management positions including Chairman of the Board of OJSC "Trade House GUM", Chairman of the Board of OJSC "Trade House TsUM" and Chief Executive Officer of OJSC Samara Trading House. Mr. Khasis is an experienced businessman in Russia and received a number of public awards including 2004 Businessman of the Year and 2003 Person of the Year – in the nomination Head of Retail Business. In 2007 he was ranked Number 1 Retail Manager in the joint rating of the National Association of Managers and Kommersant Publishing House.

Since February 2008 Mr. Khasis serves as the Chairman of the Russian Association of Companies of Retail Trade (ACORT).

Mr. Khasis graduated from the Aircraft Construction Faculty of the Samara Aircraft University, from the Banking Faculty of the Financial Academy of the Government of the Russian Federation and from the Law Faculty of the University of the Interior Ministry of the Russian Federation and holds a PhD in Economics, a PhD in Law and a PhD in Technology.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Lev Khasis	1966	Chief Executive Officer, Chairman of Management Board	2006	2010
Mr. Evgeny Kornilov	1969	Chief Financial Officer	2008	2012
Mr. Frank Lhoëst	1962	Corporate Secretary	2007	2011

Evgeny Kornilov

Mr. Kornilov, a Russian citizen, was appointed Chief Financial Officer of X5 on 18 January 2008. Mr. Kornilov was initially appointed as the Chief Financial Officer of Perekrestok in August 2006 and became the Deputy Chief Financial Officer of X5 in 2006. He graduated from the Moscow Foreign Affairs University with a degree in Economics, International Trade and Foreign Languages. Prior to joining X5, Mr. Kornilov was the Chief Financial Officer of SUN Interbrew in Russia and worked in the Management Consultancy and Audit Services practice of PricewaterhouseCoopers in Russia between 1992 and 1999.

Frank Lhoëst

Mr. Lhoëst, a Dutch citizen, was appointed a Director B and Corporate Secretary of X5 on 5 November 2007. Since 1991, Mr. Lhoëst has held several positions at Fortis Intertrust, from account manager in The Netherlands Antilles to founder and director of the Fortis Intertrust office in Vienna, Austria. In 2002, Mr. Lhoëst established the Intellectual Property Group of Fortis Intertrust in The Netherlands. Mr. Lhoëst graduated from the Leiden University with a degree in Law.

Supervisory Board

The Supervisory Board is responsible for advising and supervising the Management Board and the general course of affairs in X5 and its business. In performing its duties, the Supervisory Board takes into account the relevant interest of the Company's stakeholders, and, to that end, considers all appropriate interests associated with the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems of internal controls as well as the financial reporting process. The Supervisory Board meets at least four times per year.

The General Meeting of Shareholders determines the number of members of the Supervisory Board. The Supervisory Board currently consists of six members. On 10 April 2008 the Supervisory Board nominated the candidates for the position of an additional independent Supervisory Board member, for appointment by the General Meeting of Shareholders on 16 June 2008. On 21 April 2008 Mr. Andrei Rogachev resigned from the Supervisory Board with effect from 21 April 2008. On 22 April 2008 Mrs. Tatiana Franus resigned from the Supervisory Board with effect from 23 April 2008.

The Supervisory Board has prepared a profile of its size and composition, taking account of the nature of the Company's business and the activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board evaluates the profile annually.

According to the Rules governing the Principles and Practices of the Supervisory Board, a person may be appointed to the Supervisory Board for a maximum of three terms of four years. The Supervisory Board prepared a Retirement and Re-appointment Schedule to prevent, to the greatest extent possible, re-appointments occurring simultaneously. Both profile and rotation plan can be viewed on the Company's website.

The table below shows the current members of the Supervisory Board and their terms of appointment.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Hervé Defforey	1950	Chairman	2006	2010
Mr. Mikhail Fridman	1964	Member	2006	2009
Mr. Alexander Savin	1969	Member	2006	2009
Mr. David Gould	1969	Member	2006	2010
Mr. Vladimir Ashurkov	1972	Member	2006	2008
Mr. Carlos Criado-Pérez Trefault	1952	Member	2007	2011

Hervé Defforey

Mr. Defforey, a French citizen, is a partner of GRP Partners, London and Los Angeles. He heads GRP Partners' European venture capital activities and serves on the boards of the following companies: IFCO Systems N.V. and Ulta, Corp. Mr. Defforey formerly held positions at Carrefour, S.A. (Paris), Azucarera EBRO S.A. (Madrid), BMW A.G. (Munich) and graduated from University of St Gallen, Switzerland with a degree in Business Administration.

Mikhail Fridman

Mr. Fridman, a Russian citizen, serves as Chairman of the Supervisory Board of Alfa Group and is one of the principal founders of the Alfa Group Consortium. He also serves as the Chairman of the Board of Directors of TNK-BP and is a member of the Board of Directors of Alfa Bank and VimpleCom. He is also a member of the International Advisory Board of the Council of Foreign Relations (USA). Mr. Fridman graduated from the Moscow Institute of Steel and Alloys.

Alexander Savin

Mr. Savin, a Russian citizen, serves as Managing Director of A1 Group. His main non-executive/ancillary positions include member of the Supervisory Board of Alfa Group Consortium and member of the A1 Group Advisory Committee. Mr. Savin formerly supervised direct investments in the energy sector at Renaissance Capital Group and has had experience as a strategic consultant at Bain & Company in Moscow, London and Boston. Mr. Savin graduated from the Moscow State University with a degree in Economic Geography and Harvard Business School with an MBA.

David Gould

Mr. Gould, an American citizen, serves as Deputy Director for Corporate Development Finance and Control at Alfa Group Consortium. He also serves as member of the Board of Directors of Alfa Finance Holdings SA. Mr. Gould formerly held positions at PricewaterhouseCoopers and graduated from Colgate University with a Bachelor of Geography and Economics and a MBA-MS in Accounting from Northeastern University. He qualified as a Certified Public Accountant in 1993 and a Chartered Financial Analyst in 1999.

Vladimir Ashurkov

Mr. Ashurkov, a Russian citizen, serves as Director of Group Portfolio Management and Control in Alfa Group Consortium. His main non-executive/ancillary positions include member of the A1 Group Advisory Committee and member of the Russian Technologies Advisory Committee. Prior to joining Alfa Group, Mr. Ashurkov served as Vice President of Strategic Development in Industrial Investors Group (which owns the controlling stake in Far East Shipping Company) and gained experience in other transport and logistics companies and investment banks. Mr. Ashurkov graduated from Moscow Institute of Physics and Technology with a Bachelor of Science (Physics) and from the Wharton School, University of Pennsylvania, with a Master of Business Administration.

Carlos Criado-Pérez Trefault

Mr. Criado-Pérez Trefault, an Argentine citizen residing in Spain, serves as the Executive Chairman of Dinosol Supermercados and as member of Permira UK Advisory Board. He is also an adviser to Marks and Spencers on international expansion, adviser to the CEO of Marks and Spencers and senior adviser to UBS Bank. He has held a number of positions in various companies such as SHV Makro, Wal-Mart International and Safeway Plc in the past. Mr. Carlos Criado-Pérez Trefault graduated from Darden School Management Course, University of Virginia.

Committees of the Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its five permanent committees: the Audit Committee, Remuneration Committee, Selection and Appointment Committee, Related Party Committee and Strategy Committee from among its members. Each committee is composed of at least two members, at least one of whom must be independent within the meaning of the Dutch Corporate Governance Code. The members are appointed by the Supervisory Board. The committees operate pursuant to terms of reference established by the Supervisory Board, in accordance with the Dutch Corporate Governance Code. The terms of reference of these committees can be viewed on X5's website.

Audit Committee. The Audit Committee assists the Supervisory Board in fulfilling its supervision and monitoring responsibilities in respect of the integrity of X5's financial statements, system of internal business control and risk management, financing and finance related strategies and tax planning. It furthermore advises in respect of the appointment of the auditor and its remuneration.

Remuneration Committee. The Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals to the Supervisory Board for remuneration of the individual members of the Management Board and advises the Management Board on the level and structure of compensation for other senior personnel.

Selection and Appointment Committee. The Selection and Appointment Committee advises in respect of the selection and appointment of members of the Supervisory Board and the Management Board. At least annually the size and composition of the Supervisory Board and the Management Board and the functioning of the individual members is assessed by the Selection and Appointment Committee.

Related Party Committee. The Related Party Committee advises the Supervisory Board on handling and deciding on reported potential conflicts of interests and any other related party transactions which are contemplated between X5, on the one hand, and any conflicted persons or entities, including but not limited to its shareholders, members of the Supervisory Board and members of the Management Board, on the other hand.

Strategy Committee. The Strategy Committee advises in respect of the general strategy of X5, including, but not limited to, the future direction to be taken by X5 as a whole and each of its affiliated businesses, overall growth and development strategy, mergers and acquisitions and financing strategy.

Composition of the Supervisory Board Committees

Name	Audit Committee*	Remuneration Committee	Selection & Appointment Committee	Related Party Committee	Strategy Committee
H. Defforey	Member	Member	Member	Member	Member
V. Ashurkov		Chairman	Chairman		Chairman
M. Fridman					
D. Gould	Chairman				
A. Savin		Member	Member	Member	
C. C-P Trefault		Member	Member	Chairman	Member

* Mrs. Tatiana Franus was a member of the Audit Committee until her resignation from the Supervisory Board as per 23 April 2008. The Supervisory Board will appoint a third Audit Committee member in 2008

Appointment, Suspension and Dismissal of Management and Supervisory Board Members

The General Meeting of Shareholders shall appoint the members of the Management and Supervisory Board from a list of nominees, containing names of at least two persons for each vacancy, to be drawn by the Supervisory Board. The nomination of the recommended candidates is binding, and therefore the recommended candidate will be elected by the shareholders unless rejected by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company. If the recommended candidate is rejected, the second nominee will be appointed unless similarly rejected.

The Supervisory Board members appoint a Chairman from among their members and a vice-Chairman who shall take the place of the Chairman of the latter's absence.

Supervisory Board members are appointed for a period of up to four years and may be re-elected twice. Members of the Management Board are also elected for a period of four years. The Articles of Association do not limit the term of office for Management Board members.

Each member of the Supervisory Board and Management Board may at any time be dismissed by the General Meeting of Shareholders. A member of the Management Board may at any time be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration

The remuneration of the individual board members of the Management Board will be decided upon by the Supervisory Board on the recommendation by the Remuneration Committee of the Supervisory Board, based on the Company's Remuneration Policy. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders.

The Remuneration Policy for members of the Management Board and Supervisory Board is incorporated in the Remuneration Report on page 59, and is available on the website of the Company.

Reporting on Conflicts of Interest

The Supervisory Board is responsible for deciding how to resolve conflicts of interest between members of the Management Board, members of the Supervisory Board and/or the external auditor on the one hand and the Company on the other hand.

A member of the Management Board or of the Supervisory Board is required to report immediately and provide all relevant information to the chairman of the Supervisory Board and to the other members of the Management Board (if it concerns a member of that board) on any conflict of interest or potential conflict of interest that may be of material significance to the Company and/or to the relevant member.

In the event of a conflict between the Company and a member or all members of the Management Board, the Company shall be represented by a member of the Supervisory Board appointed by the Supervisory Board for that purpose.

A decision to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to the Company or to the relevant member requires the approval of the Supervisory Board. The Related Party Committee advises the Supervisory Board on the handling, and deciding on, reported conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto.

Securities Owned by Board Members

The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's Code of Conduct with regard to Insider Trading, which contains rules of conduct to prevent trading in X5's financial instruments when holding inside information. The Code of Conduct with regard to Insider Trading can be viewed on the Company's website.

The Code of Conduct includes a specific section on obligations of members of the Management Board to report to the Compliance Officer in case of changes in their holding of securities in any Dutch listed company, not being X5 securities, in accordance with the Dutch Corporate Governance Code.

Shareholders and Their Rights

General Meeting of Shareholders

X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year, among other things, to adopt the financial statements, to decide on any proposal concerning profit allocation and to discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deems it necessary. In addition, shareholders jointly representing 10% of the outstanding share capital may request that a General Meeting of Shareholders be held, stating their proposed agenda in detail.

The powers of the General Meeting of Shareholders are defined in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the shareholders are to appoint, suspend and dismiss members of the Management Board and Supervisory Board, to appoint the external auditors, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to withdraw pre-emptive rights of shareholders upon issuance of shares, and to authorise the Management Board to repurchase or cancel outstanding shares.

General Meetings of Shareholders may only be held in Amsterdam or Haarlemmermeer (Schiphol Airport). Notice of a General Meeting of Shareholders must be given to the shareholders and the holders of depositary receipts of shares no later than the fifteenth day before the date of the meeting and must include an agenda stating the items to be discussed during the meeting.

All shareholders and other persons who, pursuant to Dutch law or the Articles, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. As described in "Terms and Conditions of the Global Depositary Receipts", holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the Shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders.

Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the laws of the country where the proxy is issued.

Subject to the prior approval of the Supervisory Board, the Management Board may set a record date to establish which shareholders are entitled to attend and vote at the General Meeting of Shareholders.

Voting Rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of The Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents of The Netherlands. Resolutions of the General Meeting of Shareholders will be passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened and held no later than four weeks following the first meeting. At such second meeting, no quorum requirement will apply.

If there is no majority in the event of an election of persons for a vacancy on the Supervisory Board or on the Management Board, a second vote will be taken. If there is a tie in voting at the second vote, a drawing of lots will determine the issue. If there is a tie in voting on matters other than the election of persons, the proposal will be considered rejected.

Dividend Rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its shareholders equity, less the amount to be paid as distributions is not less than the sum of its issued and fully paid-in share capital plus any legal reserves required to be maintained pursuant to Dutch law and the Articles. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves that must be maintained pursuant to Dutch law and the Articles and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's shareholders' equity exceeds the sum of its issued share capital and certain reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board and subject to Dutch law, the General Meeting of Shareholders may resolve to make other distributions to the shareholders out of any reserves that need not be maintained pursuant to Dutch law or the Articles.

Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Auditor

The General Meeting of Shareholders appoints the external auditor. The Audit Committee makes a recommendation to the Supervisory Board with respect to the external auditor to be proposed for (re)appointment by the General Meeting of Shareholders. In addition, the Audit Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor as negotiated by the Management Board. The Audit Committee shall not approve the engagement of the external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise their independence.

At least every four years, the Management Board, shall, together with the Audit Committee, thoroughly assess the functioning of the external auditor in the various entities and capacities in which the external auditors operates. The main conclusions of the assessment shall be notified to the General Meeting of Shareholders for the purpose of considering the (recommendation for the appointment of) external auditor of the Company.

Dutch Corporate Governance Code

On 9 December 2003, a committee commissioned by the Dutch government (*Commissie Tabaksblat*) published the Dutch Corporate Governance Code. The provisions of the Dutch Corporate Governance Code took effect on 1 January 2004. Some of the Dutch Corporate Governance Code's best practice provisions have been incorporated into Dutch law, including the obligation for companies to discuss in their annual report in detail the points on which they do not comply with the Dutch Corporate Governance Code, and to explain the reasons for not doing so. Any substantial changes to the corporate governance structure of a company or any substantial changes to compliance with the Dutch Corporate Governance Code will be discussed at the annual general meeting of shareholders. The Dutch Corporate Governance Code provides that if a company's general meeting of shareholders approves the corporate governance structure of a company and the company's explanations for any deviations therefrom, the company will be deemed to comply with the Dutch Corporate Governance Code.

X5 is subject to the Dutch Corporate Governance Code. For the reasons set out below, X5 does not comply with the following best practice provisions of the Dutch Corporate Governance Code:

Provision II.2.2: Grant of Unconditional Options to Members of the Management Board

Pursuant to the Dutch Corporate Governance Code, if a company grants unconditional options to its members of the management board, such grant should be subject to certain performance criteria and the options should not be exercisable within three years following the date of grant.

On 15 June 2007, the General Meeting of Shareholders approved the adoption of X5's Employee Stock Option Plan ("ESOP"). Options will be granted in four tranches, issued over a period of four years with immediate vesting for the first tranche, an 11 month vesting period for the second grant and a one year vesting period for the third and fourth grants.

While the ESOP is considered a long-term compensation for its participants, and the grant of options will be linked to pre-determined, measurable performance based targets, X5 acknowledges that in terms of vesting period the ESOP deviates from the Dutch Corporate Governance Code. However, since X5's operational activities are mainly based in the Russian Federation, Ukraine and Kazakhstan and the grant of unconditional options with a shorter than three year vesting period is customary in these markets, it is important for X5 to deviate on this point from the Dutch Corporate Governance Code in order to attract and reward the best professionals in these markets.

Provision II.2.11: Immediate Publication of Main Elements of Contracts with Members of the Management Board

Pursuant to the Dutch Corporate Governance Code, the main elements of contracts with members of the management board should be made public immediately following the entering into of such a contract.

X5 acknowledges that on this point it has deviated from the Dutch Corporate Governance Code. However, the main elements of the contracts with the members of the Management Board will be included in the 2007 Remuneration Report, which will be made available on X5's website upon publication of the Annual Report for 2007.

Provision III.2.1: Independence of Members of the Supervisory Board

Pursuant to the Dutch Corporate Governance Code, all, but one, of the members of the Supervisory Board should be independent.

All members of the Supervisory Board, with the exception of two (that is, the chairman, Mr. Hervé Defforey and Mr. Carlos Criado-Pérez Trefault), (i) have a substantial shareholder interest in X5 or (ii) are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the Shares or GDRs in X5. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Dutch Corporate Governance Code. Mr. Hervé Defforey and Mr. Carlos Criado-Pérez Trefault are independent within the meaning of the Dutch Corporate Governance Code.

X5 believes that the non-independent members of the Supervisory Board have an in-depth knowledge of the food-retail industry and the markets in which X5 operates that is of particular advantage to X5 and its stakeholders.

Finally, X5 intends to nominate a third independent member of the Supervisory Board for appointment by the General Meeting of Shareholders at the annual general meeting of shareholders to be held on 16 June 2008, to fill the vacancy created through the resignation of Mr. Alexander Kosiyanenko on 13 February 2008.

Provision III.7.1: No Grant of Shares and Options to Members of the Supervisory Board

Pursuant to the Dutch Corporate Governance Code, members of the supervisory board should not be granted any shares and/or rights to subscribe for shares as remuneration for their membership of the supervisory board.

On 15 June 2007 and 5 November 2007, the General Meeting of Shareholders approved that Mr. Hervé Defforey and Mr. Carlos Criado-Pérez Trefault, as members of the Supervisory Board, were granted options under the ESOP. X5 acknowledges that such grant deviates from the Dutch Corporate Governance Code. However, in order to attract and reward experienced individuals with a proven track record in the food retail industry, X5 believes it is necessary to grant stock options also to certain members of the Supervisory Board.

Internal Risk Management and Control System

The Management Board is responsible for designing, implementing and operating an adequate functioning Internal Risk Management and Control Framework in the Company, which is an on-going process.

Under the authority delegated by the Management Board, the management teams at all levels of the organisation are responsible for monitoring the risks and for designing internal control systems appropriate to their respective business processes. The finance function assists management at all levels in developing internal control procedures that are risk-oriented and in-built into the business processes. In addition, financial controllers are the integral part of the Company's Internal Risk and Control System and perform ongoing monitoring of its effectiveness. Due to these combined efforts in 2007 the Company has improved its financial reporting controls and non-financial policies and procedures to ensure adequate control over the Company's operations.

The Company has adopted criteria set forth by the Committee of Sponsoring Organisations (COSO) in its *Internal Control – Integrated Framework* and is actively implementing it across the organisation: approximately 160 key employees and managers of X5 Finance Department, as well as about 200 managers in the Company's corporate center have been formally trained in COSO internal control framework. This initiative was combined with a control self-assessment performed with the assistance of questionnaires on COSO statements in order for controllers and business process owners to determine the Company's current compliance with COSO requirements and identify areas for improvement. This also helped to emphasize that internal control is the responsibility of all persons in the Company. In addition, the Corporate Audit Department (the Company's internal audit function) has been actively using COSO requirements for its audit engagements by assigning its findings to COSO categories. Finally, the COSO criteria for evaluating the effectiveness of control systems are required to be used by business process owners during the implementation of new and the improvement of existing control procedures.

The Corporate Audit Department provides the Audit Committee of the Supervisory Board and the Management Board of the Company with independent and objective appraisals of risk management, control and governance processes of operational, financial and information systems. In 2007 following a risk based audit approach the Corporate Audit Department reviewed major cross-functional business processes that are critical for the Company's operations and provided recommendations on improvement of the respective internal controls. Such recommendations are currently being implemented by the Company's management. The quality of the Company's systems of business controls and the findings of internal and external auditors are regularly reported to and discussed on the Audit Committee of the Supervisory Board.

Based on the above mentioned activities performed during 2007 and up to date, with regard to financial reporting risks, the Management Board believes that:

- there is reasonable assurance that the financial reporting does not contain any errors of material importance;
- the risk management and control systems have worked properly in the year under review;
- there are no indications that the risk management and control systems will not work properly in 2008.

In 2008 in addition to continuing the above mentioned activities, the Company plans to make further improvements in its Internal Risk and Control System, which are expected to bring it to the next level of its implementation and operation. These focus areas include but are not limited to reemphasising the Guiding Principles of Business Conduct and implementing an ethics hot line both aimed to build a strong control environment, as well as introducing the formal risk assessment & analysis process. The formal risk assessment will consist of a periodic identification, measurement and prioritisation of business risks with the help of risk maps (covering strategic, operational, financial reporting, and compliance categories) and on which basis in the Annual Report 2008 the Company's business risk profile will be discussed.

Note 32 "Financial Risks Management" to the Consolidated Financial Statements in this Annual Report contains a detailed description of financial risks (credit, market, liquidity risks) and the Company's response to those risks.

Report of the Supervisory Board

The Supervisory Board is charged with supervising the policies of the Management Board and the general course of affairs of the Company and the business connected with it, as well as assisting the Management Board by providing advice.

In performing its duties the Supervisory Board is charged with acting in accordance with the interests of the Company and its affiliated businesses. It shall take into account the relevant interest of the Company's stakeholders and, to that end, consider all appropriate interests associated with the Company.

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its five permanent committees: The Audit Committee, the Remuneration Committee, the Selection and Appointment Committee, the Related Party Committee and the Strategy Committee.

Composition Supervisory Board

The composition of the Supervisory Board changed in 2007. Mr. Carlos Criado-Pérez Trefault was appointed by the General Meeting of Shareholders on 5 November 2007 as a new member of the Supervisory Board. His knowledge and expertise in the retail industry are of great value to the Company. An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

Composition Committees

The following changes to the composition of the committees took place in 2007: Mr. Rogachev resigned from the Remuneration Committee, the Selection and Appointment Committee and the Related Party Committee. Mr. Carlos Criado-Pérez Trefault was appointed to these committees and accepted the position of chairman of the Related Party Committee. He was also appointed to the Strategy Committee. Mr. Vladimir Ashurkov took over Mr. Alexander Kosiyanenko's position as chairman of the Remuneration Committee and the Selection and Appointment Committee. An overview of the current composition of the committees is presented in the Corporate Governance Report.

Induction

During 2007, prior to his appointment in November, the new member of the Supervisory Board, Mr. Carlos Criado-Pérez Trefault, acted as advisor to the chairman and attended the annual conference of the Strategy Committee, one meeting of the Audit Committee and two meetings of the Supervisory Board. Senior corporate directors went through the strategic, financial, legal and reporting affairs of X5 Retail Group with Mr. Carlos Criado-Pérez Trefault.

Meetings of the Supervisory Board

The Supervisory Board meets at least four times a year. On each of four occasions in 2007 a meeting of the Supervisory Board and a meeting of the Audit Committee were held, and an additional Audit Committee meeting was held in January 2007. At two of these occasions meetings of the Remuneration Committee and Selection and Appointment Committee were held. Additional meetings or conference calls were held as deemed necessary.

Most meetings were attended by the full Supervisory Board apart from Mr. Andrei Rogachev who attended only one meeting and Ms. Tatiana Franus who was absent on one of the meetings. All Supervisory Board meetings were attended by the CEO and CFO of the Company. Occasionally other Management Board members and key employees attended the Supervisory Board meetings. The chairman had frequent (telephone) meetings with the CEO, and from time to time with other members of the Management Board, in between the Supervisory Board meetings.

At the occasion of each meeting the Supervisory Board approved certain Related Party transactions advised by the Related Party Committee (see: Related Party Committee).

In 2007 the Supervisory Board strongly focused on integration synergies pursuant to the merger in 2006, and the mid-term corporate strategy.

Main topics discussed and/or approved by the Supervisory Board during the first quarter:

- 2006 Annual Report;
- Corporate and Financial Strategy for the years 2007–2012;
- Remuneration Policy and Remuneration Report 2007;
- Remuneration of the Management Board;
- Changes in the composition of the Management Board as such that the number of Board members is reduced, whereby the two Directors A shall have the title CEO, respectively CFO, and the Director B shall have the title Company Secretary;
- Composition of the Supervisory Board, in particular in view of increasing the number of independent members to the Supervisory Board;

- Amendment of the Articles of Association in connection with the composition of the Management Board, nomination of Management and Supervisory Board members and quorum requirements for the General Meeting of Shareholders.

Main topics discussed and/or approved by the Supervisory Board during the second quarter:

- Employee Stock Option Plan: rules, implementation and approval of participating Management Board members and key employees;
- Approval of remuneration of members of the Executive Committee;
- USD 1 billion bridge loan facility;
- Amendment to call option agreement relating to Formata Holding B.V. ("Karusel");
- Code of Conduct with regard to Insider Trading;
- Tax position and tax planning of the Company;
- Integration Status;
- Mergers and Acquisitions.

Main topics discussed and/or approved by the Supervisory Board during the third quarter:

- Audited financial statements 1st half 2007;
- Update of Corporate and Financial Strategy for the years 2007–2012;
- Issuance of interest-bearing nonconvertible documentary bonds through X5 Finance LLC;
- Nomination of Mr. Carlos Criado-Pérez Trefault as new member of the Supervisory Board;
- Nomination of Mr. Frank Lhoëst as new member of the Management Board and Company Secretary;
- Composition of the Committees of the Supervisory Board.

Main topics discussed and/or approved by the Supervisory Board during the fourth quarter:

- Third quarter results;
- Budget and key performance indicators 2008;
- Acquisition of retail assets of the retail chain "Ramstore";
- USD 1.1 billion Syndicated loan facility;
- Nomination of, a.o., Mr. Evgeny Kornilov as new member of the Management Board and CFO;
- Authorisation of the Management Board to implement the Employee Stock Option Plan in favour of employees, other than Board members and key employees.

Meetings of the Committees

Audit Committee

The role of the Audit Committee is described in its charter which is available on the Company's website. On 31 December 2007 the Audit Committee consisted of Mr. David Gould (Chairman), Mr. Hervé Defforey and Ms. Tatiana Franus.

In 2007 the Audit Committee held five meetings, in all but one case immediately preceding a Supervisory Board meeting. All meetings were attended by the CFO (except in one case), the external auditor (except in one case) and the Head of the Internal Audit Department (renamed Corporate Audit Department in December 2007).

The Audit Committee discussed and approved the full year 2006 and half-yearly 2007 consolidated financial statements of the Company audited by PricewaterhouseCoopers, the Company's external auditor. It also reviewed press releases and analyst reports related thereto and compliance with the Company's policy on external auditor independence, audit scope and approach. The Audit Committee reviewed the report of the external auditors to the Audit Committee with respect to accounting and audit issues in respect of their audit of the 2006 consolidated financial statements. In April 2007, the Audit Committee met with the auditors without the presence of management. Audit fees for 2007 were approved in September.

In July the Audit Committee reviewed the progress made in connection with improvement of the financial and management reporting function. The Audit Committee in particular reviewed progress made pursuant to the Pyaterochka and Perekrestok merger in 2006, including unified accounting processes, integration of reporting processes and transition to a sole IT platform. Furthermore, the review included the organisation structure and staffing of the financial reporting department.

During the year the Audit Committee reviewed the Company's estimated range of contingent tax liabilities and tax planning issues in general, including a tax risk assessment performed by the Company.

In 2007 the Audit Committee reviewed the Company's internal risk management and control systems, and the proper functioning of operational and business processes mainly through the work of the Corporate Audit Department (CAD). The CAD assisted various departments to perform control self assessment testing and conducted their own diagnostic

reviews, developed risk maps and built such findings into its annual audit plan. Significant findings of the CAD were reported to the Audit Committee on a regular basis.

In January 2007 the Audit Committee reviewed the work of the CAD which was previously completed, and approved the audit plan for 2007. In September and December the Audit Committee reviewed the work of the CAD and approved the CAD plan of work and budget for the ensuing financial year. The review included the status of the newly implemented "Control Self Assessment" project, amendments to the CAD Charter (involving name, reporting lines and independence assurance) and mechanisms available to the CAD for ensuring resolution to audit issues raised including use of the Company CEO as well as the Audit Committee as necessary. The audit plan 2008 was discussed with the external auditor.

Audit Committee members meet regularly with financial and operational management. To the extent that any risks or control deficiencies are identified they are addressed with management and through the participation of the Audit Committee, as necessary. For example, the Audit Committee reviewed the applications of the Company's information and communication technology, in particular the IT General Controls Self Assessment, with a strong emphasis on priorities and main direction of IT in function of the Company's strategy and development.

In December the Audit Committee reviewed a report from the Investor Relations Department and discussed the 2008 financial calendar and black out dates in accordance with the Company's Code of Conduct with regard to Insider Trading.

Remuneration Committee

The role of the Remuneration Committee is described in its charter which is available on the Company's website. On 31 December 2007 the Remuneration Committee consisted of Mr. Vladimir Ashurkov (Chairman), Mr. Hervé Defforey, Mr. Alexander Savin, Mr. Alexander Kosiyanenko and Mr. Carlos Criado-Pérez Trefault.

The Remuneration Committee had two meetings in 2007. Further resolutions in writing were taken when necessary during the year. The Remuneration Committee is responsible for assessing and preparing the remuneration policy applicable to the members of the Management Board. Early in the year, the Remuneration Committee discussed the remuneration of the Management Board for 2007, the new Remuneration Policy, which policy was adopted by the General Meeting of Shareholders on 15 June 2007, and the implementation of the Company's Employee Stock Option Plan.

In the second half of the year the Remuneration Committee reviewed the remuneration of the new members to be appointed to the Management Board. Furthermore, the Committee discussed the Company's Employees' Remuneration Policy and gave recommendations for alignment with the Company's corporate strategy and market practice.

The Remuneration Report provides further details on remuneration for the Supervisory Board and the Management Board. The Remuneration Policy is also available on the website of the Company.

Selection and Appointment Committee

The role of the Selection and Appointment Committee is described in its charter which is available on the Company's website. On 31 December 2007 the Selection and Appointment Committee consisted of Mr. Vladimir Ashurkov (Chairman), Mr. Hervé Defforey, Mr. Alexander Savin, Mr. Alexander Kosiyanenko and Mr. Carlos Criado-Pérez Trefault.

During the first half of 2007 the Selection and Appointment Committee advised on the new composition of the Management Board, and changing the Articles of Association accordingly. The Selection and Appointment Committee advised on the reappointment of Ms. Tatiana Franus in accordance with the retirement and reappointment schedule of the Supervisory Board, and reviewed the policy of the Management Board in relation to the selection and appointment criteria for senior management.

During the second half of 2007 the Selection and Appointment Committee proposed the appointment of the new members to the Management Board.

Related Party Committee

The role of the Related Party Committee is described in its charter which is available on the Company's website. On 31 December 2007 the Related Party Committee consisted of Mr. Carlos Criado-Pérez Trefault (Chairman), Mr. Hervé Defforey and Mr. Alexander Savin.

The Related Party Committee had two meetings in 2007. Further resolutions in writing were taken when necessary during the year. The Related Party Committee considered a number of transactions which gave rise to -the appearance of- a conflict of interest with the Company. Each of the transactions below were discussed and/or approved by the Related Party Committee and the Supervisory Board during 2007:

- Agreement between X5 Retail Group LLC with MosInvestProyekt CJSC;
- Acquisition of the retail chain Venetsiya operated under the tradename "Globus Gurme" (not approved);
- Acquisition of the A1 controlled holding company which subsidiaries will operate in the Republic of Belarus;
- Agreement with Alfa Bank with respect to the acquisition of M&A advisory work during the years 2007–2009;
- Approval of budget 2007–2008 for advisory and administrative services rendered by CTF;
- Agreements with Alfa Bank relating to bank accounts for employees of certain subsidiaries of the Company;
- Agreement with Multiserve Holdings Limited with respect to the commission payment for the acquisition of OJSC Shuvalovsky;
- Acquisition of Trade Center Budapest (Donette Investments limited);
- Acquisition of LLC Argonot and LLC Argonot-B;
- Amendment to call option agreement relating to the acquisition of Formata Holding B.V. ("Karusel");
- Intercreditor agreement with Luckyworth Limited for syndicated loan facility.

Strategy Committee

The role of the Strategy Committee is described in its charter which is available on the Company's website. On 31 December 2007 the Strategy Committee consisted of Mr. Vladimir Ashurkov (Chairman), Mr. Alexander Kosiyanenko and Mr. Hervé Defforey.

The responsibilities of the Strategy Committee include the review of the general strategy of the Company including but not limited to the following main areas: overall growth and development strategy, financing strategy, budget and key-performance indicators, mergers and acquisitions.

The Strategy Committee had its annual two day conference in March and a second meeting by telephone in October. The meeting in March was attended by the CEO, CFO and COO and covered the review of the corporate strategy 2007–2012, the budget 2007 and the financial strategy of the Company. Further topics were discussed, including expansion and development strategy, M&A strategy, supply chain, IT strategy, HR strategy and integration.

In October the Strategy Committee, in attendance of the M&A Director, discussed the acquisition of the retail assets of the retail chain "Ramstore".

Corporate Governance

Both the Supervisory Board and the Management Board continued their efforts to ensure that the Company's practices and procedures comply with the Netherlands Corporate Governance Code. In accordance with the Code and the recommendations of the Netherlands Corporate Governance Committee, a broad outline of the corporate governance structure of the Company is presented in the Corporate Governance Report.

Financial Statements

This annual report and the 2007 consolidated financial statements, audited by PricewaterhouseCoopers Accountants, were presented to the Supervisory Board in the presence of the Management Board and the external auditor. PricewaterhouseCoopers' report can be found on page 128.

The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts the 2007 consolidated financial statements of X5 Retail Group N.V. The Annual General Meeting of Shareholders will be asked to release the members of the Management Board from liability for the exercise of the management of the Company's affairs and management. The appropriation of results approved by the Supervisory Board can be found on page 126.

The Supervisory Board wishes to thank the Management Board and all employees of X5 for their outstanding contributions in 2007.

The Supervisory Board
16 May 2008

Remuneration Report

This report has been prepared by the Supervisory Board of X5 Retail Group N.V. (the "Company") in accordance with the Dutch Corporate Governance Code. It contains an update of the Remuneration Policy of the Company which will be proposed to the Annual General Meeting of Shareholders to be held on June 16, 2008 (section A) as well as the remuneration specifics for the financial year 2007 (section B). This report will also address the way in which the policy will be pursued for the financial year 2008 and beyond (section C).

The Supervisory Board determines the remuneration of the individual members of the Management Board, on a proposal by the Remuneration Committee, within the scope of the Remuneration Policy adopted by the General Meeting of Shareholders on 15 June 2007.

The current members of the Remuneration Committee are Vladimir Ashurkov (Chairman), Hervé Defforey, Alexander Savin and Carlos Criado-Pérez Trefault.

A. Remuneration Policy

In 2007 the Supervisory Board developed a Remuneration Policy for its Management Board which was adopted by the General Meeting of Shareholders on 15 June 2007.

The objective of the remuneration policy is twofold:

a. to create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives, and

b. to provide and motivate these executives with a balanced and competitive remuneration.

The remuneration structure includes four elements: base salary, annual incentive (cash bonus), long term incentive (stock options and/or equity linked instruments), and other arrangements. The remuneration structure mirrors short-term and long-term elements of the responsibilities of members of the Management Board.

At the discretion of the Remuneration Committee, and in the interest of the Company, the Committee may deviate from the Remuneration Policy when offering a remuneration structure to a newly appointed member of the Management Board or when amending the remuneration structure of a current member of the Management Board. Consequently, the Supervisory Board holds the discretionary right to deviate from the remuneration policy in the event of exceptional circumstances or if deemed appropriate.

Base Salary

Base salaries are specified in the individual contracts with members of the Management Board and reflect requirements, responsibilities and risk profile of a member of the Management Board, the relevant experience of a member of the Management Board, and other factors. The levels of base salaries are determined by (i) benchmarking with other multinational companies of comparable size and complexity, operating in comparable geographical and industrial markets and (ii) the specific responsibilities and achievements of the individual member of the Management Board. The annual review date for the base salary is 31 December.

Annual Incentive (Cash Bonus)

As a general rule, in accordance with the Remuneration Policy adopted in 2007, the annual performance bonus has an on target level of 100% of the base salary, to be increased with a maximum of 50% of the base salary subject to extraordinary achievement and qualitative performance in relation to the specific responsibilities of the Management Board member. The Supervisory Board may deviate from the Remuneration Policy and further increase the annual performance bonus in the event of exceptional circumstances or if deemed appropriate.

Performance criteria are specified in advance per Management Board member. They mainly consist of quantitative criteria related to the performance of the Company which are determined from time to time by the Supervisory Board and include, among others, net revenues and EBITDA. These performance measures are considered success factors for the Company in the short term. The specific targets related to the financial performance measures can not be disclosed as these qualify as commercially sensitive information.

Performance criteria also include qualitative targets that are relevant to the responsibilities of an individual Management Board member. Performance criteria for the Chief Executive Officer are proposed by the Remuneration Committee and approved by the Supervisory Board. Performance criteria for all other Management Board members are proposed by the Chief Executive Officer.

Long Term Incentive: Employee Stock Option Plan

In 2007 the Company launched its long term incentive for key Group employees and members of the Management Board through its Employee Stock Option Plan (ESOP). The ESOP was approved by the General Meeting of Shareholders on 15 June 2007. The options under the ESOP each confer the right to a number of Global Depositary Receipts ("GDRs"), each GDR representing one fourth of an ordinary share of EUR 1 par value in the capital of the Company. The maximum number of options to be granted under the ESOP to all eligible employees and members of the Management Board is limited to 10,824,008 representing 5% of the current issued share capital of the Company. The options are granted in four tranches issued over a period of three years (2007 through 2009). The options outstanding are conditional upon employment with the Group. The number of options granted to Management Board members and key employees will be linked to pre-determined, measurable targets which can be influenced by those employees.

Other Variable Remuneration Components

A number of other arrangements are offered to members of the Management Board, such as expense and relocation allowance, medical insurance and accident insurance. The Company's policy does not allow personal loans and guarantees to members of the Management Board.

Contracts of Employment

The members of the Management Board have a written contract of employment with X5 Retail Group N.V. in The Netherlands and/or its operational Russian subsidiaries. The fixed and variable salary components stipulated in each employment contract reflect the relevant responsibilities of each member of the Management Board in The Netherlands and Russia.

The current members of the Management Board are employed and appointed for a four year period, in accordance with the Dutch Corporate Governance Code. For future new appointments to the Management Board, the term of the contract is also set at four years.

The severance payment is in principle limited to one year's base salary. The Supervisory Board reserves the right to agree to a different amount should individual circumstances require this.

B. Remuneration 2007

Management Board Remuneration

During the reporting year the composition of the Management Board changed in line with the governance objectives of the Company. On 15 June 2007 the Annual General Meeting accepted the resignation of Pavel Musial, Angelika Li, Oleg

Specification of the fixed and variable remuneration of the Management Board for the financial year 2007

Amounts in USD	Base salary	Cash Bonus	Options	
L. Khasis	1,123,025	2,750,000	23,873,097	
V. Podolsky	755,772	800,000	4,500,000	
P. Musial	198,000			Resigned 15 June 2007
A. Li	251,902	122,249	72,767	Resigned 15 June 2007
O. Vysotsky	251,902	341,096	181,917	Resigned 15 June 2007
A. Gusev	294,819	409,315	3,948,618	Resigned 15 June 2007
W. Rieff	29,277			Resigned 5 November 2007
F. Lhoëst	48,309	14,000		Appointed 5 November 2007
Total	**2,953,006**	**4,436,660**	**32,576,399**	

Vysotsky and Andrei Gusev. Furthermore, Wim Rieff resigned as per 5 November 2007 and was succeeded by Frank Lhoëst as Company Secretary.

For the year ended 31 December 2007 members of the Management Board were entitled to a short term compensation of USD 7,389,666 (2006: USD 9,054,088) and a share-based remuneration of USD 32,576,399 (2006: USD 13,330,205).

The base salaries and cash bonus are presented on a pro rata basis, subject to appointment or resignation during the year. All amounts are paid in either RUR (Russian Rubles) or Euro (in The Netherlands), and converted to USD for reporting purposes, using the average USD rate for 2007 to convert RUR amounts into USD, and year-end cross-rate Euro/USD for amounts paid in Euro. The rates are available in Note 2 to the Consolidated Financial Statements included in this Annual Report.

Supervisory Board Remuneration

The remuneration principle of the Supervisory Board, as approved at the General Meeting of Shareholders on 16 October 2006, was amended and approved at the General Meeting of Shareholders on 5 November 2007 as follows:

- Chairman of the Board: Euro 24,000 per meeting of the Supervisory Board with a minimum of Euro 120,000 per year;
- Independent Board members: Euro 120,000 per year;
- Board members who chair one or more committees: Euro 75,000 per year;
- Board members who chair no committee: Euro 50,000 per year; and
- Independent Board members may be granted options.

In the reporting year, the remuneration of the Supervisory Board amounts to USD 827,105 (2006: USD 1,845,304), and share-based payments of USD 534,728 (2006: 34,673,361).

The base salaries are presented on a pro rata basis, subject to appointment or resignation during the year. All remuneration amounts are paid in Euro (in The Netherlands), and converted to USD for reporting purposes, using the year-end cross-rate Euro/USD. The rate is available in Note 2 to the Consolidated Financial Statements included in this Annual Report.

Specification of the remuneration of the Supervisory Board for the financial year 2007

Amounts in USD	Remuneration 2007	Options	
Hervé Defforey (Chairman)	175,668	374,729	
Mikhail Fridman	73,195		
Alexander Savin	73,195		
Vladimir Ashurkov	109,793		
David Gould	109,793		
Alexander Kosiyanenko	109,793		
Tatiana Franus	73,195		
Andrey Rogachev	73,195		
Carlos Criado-Pérez Trefault	29,278	159,999	Appointed 5 November 2007
Total	**827,105**	**534,728**	

Stock Options

During the reporting year the first two tranches of options under the Employee Stock Option Plan were granted. Details of stock options held by members of the Management Board and Supervisory Board are set forth below:

	Granted in 2007	Tranche	Exercised in 2007	Position 31 Dec 2007	Exercise price*	Share price on exercise date	Expiration date
L. Khasis	810,000	1		810,000	$18.00		18-11-2010
	810,000	2		810,000	$30.62		18-11-2010
V. Podolsky	250,000	1	250,000		$18.00	$36	18-11-2010
A. Li	20,000	2		20,000	$30.62		18-11-2010
O. Vysotsky	50,000	2		50,000	$30.62		18-11-2010
A. Gusev	150,000	1		150,000	$18.00		18-11-2010
	200,000	2		200,000	$30.62		18-11-2010
W. Rieff							
F. Lhoëst							
Total Management Board	**2,290,000**			**2,040,000**			
H. Defforey	10,000	1		10,000	$18.00		18-11-2010
	20,000	2		20,000	$30.62		18-11-2010
C. Criado-Pérez Trefault	20,000	2		20,000	$30.62		18-11-2010
Total Supervisory Board	**50,000**			**50,000**			

* The exercise price of the options under tranche 1 is defined as the share price at the date of the merger between Pyaterochka Holding N.V. and Perekrestok Holdings Limited on 16 May 2006.

The exercise price of the options under tranche 2 is defined as the price equal to the Average Market Value per Depositary Receipt as of 18 May 2007, whereby the Average Market Value is defined as "on any particular day the volume weighted average price of a Depositary Receipt over the 30 immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a Depositary Receipt taken from the Official List of the LSE"

C. Remuneration Policy in 2008 and Beyond

In 2007 the Remuneration Policy as described in this report was pursued. It is the intention that the current policy will be continued in the next financial year and beyond.

In 2008 the base salaries of some members of the Management Board will be aligned with compensation levels in comparable companies.

Under the Rules of the Employee Stock Option Plan the Supervisory Board may adjust the number of GDRs comprised in each option and/or the exercise price of options, to neutralise the effects of a variation in the equity share capital of the Company as a result of, among other things, a rights issue. Accordingly, pursuant to the rights offering which took place in May 2008, options in favour of the members of the Management Board and the Supervisory Board will be adjusted and granted subject to approval of the Supervisory Board and, insofar the adjustment relates to the number of GDRs in respect of which options may be granted under the ESOP, the General Meeting of Shareholders.

Supervisory Board
16 May 2008

Community Relations and Corporate Social Responsibility

X5 Retail Group allocates an important role to supporting charitable and humanitarian projects and is guided by the principles of social responsibility. Within the framework of the Group's social initiatives, several projects have come to fruition together with the Moscow Department of Education, the Russian Football Union and the Liniya Zhizni charitable fund for helping critically ill children.

In November 2006, X5 Retail Group became a general partner of the Russian Football Union and an official partner of the Russian national football team. The Company will allocate USD 14 million in total to support the team as well as for the construction of new football fields, supporting youth sport education and training for talented young athletes.

In September 2007, X5 Retail Group announced the launch of "A Minute for Life," a new charity program created through X5's strategic partnership with the Liniya Zhizni (Lifeline) fund. The primary goal of Liniya Zhizhi is to reduce child mortality from treatable serious illnesses by modernising the country's healthcare system. On the first of every month, all of X5's earnings from sales generated in a single minute are donated to the Liniya Zhizni fund. Collection boxes are also located in Perekrestok's stores to enable our customers to join in our support for this worthy cause.

X5 is also developing programs to support the country's education system together with the Moscow Department of Education and with the backing of the Moscow City Government. In November 2007, as a result of the national charitable program "Perekrestok to Schools!" more than 400 educational facilities in various Russian cities received approximately 1,600 computers.

X5 actively participates in wide-ranging efforts to assist the most vulnerable sections of the population. In November 2007, X5 Retail Group and the Department of Social Welfare of the Moscow City Government held a charity event that coincided with Russia's Mother's Day celebrations. X5 Retail Group is also paying particular attention to the needs of Russian war veterans. Pyaterochka stores in Moscow are participating in a program to provide services to disabled veterans and World War II participants.

X5 is proud that its accomplishments and initiatives are recognised by the society. In 2007 the Company won the Retail Grand Prix in the "Corporate Responsibility" category at the Retail Grand Prix 2007 ceremony organised by BBPG and supported by the World Retail Congress and Russia's Association of Retail Companies (AKORT).

Financial
Statements

Contents

68 **Consolidated Financial Statements**

68 Consolidated Balance Sheet

69 Consolidated Income Statement

70 Consolidated Statement of Cash Flows

71 Consolidated Statement of Changes in Equity

72 Notes to the Consolidated Financial Statements

119 **Company Financial Statements**

119 Company Balance Sheet of X5 Retail Group N.V.

120 Company Income Statement of X5 Retail Group N.V.

121 Notes to the Company's Financial Statements

126 **Other Information**

128 **Auditor's Report**

Consolidated Financial Statements

X5 Retail Group N. V. Consolidated Balance Sheet at 31 December 2007
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,988,391	1,265,833
Investment property	12	129,006	40,020
Goodwill	13	2,934,216	2,629,046
Intangible assets	14	523,533	492,259
Prepaid leases		54,846	9,440
Loan originated to related parties	9	-	5,250
Other non-current assets		2,534	-
Deferred tax assets	31	28,357	18,626
		5,660,883	4,460,474
Current assets			
Inventories of goods for resale	15	325,036	208,576
Available-for-sale financial assets	18	-	623
Derivative financial assets	18	1,500	-
Loans originated		248	10,985
Current portion of non-current prepaid lease		5,766	-
Trade and other accounts receivable	16	149,137	148,225
Current income tax receivable		4,622	6,161
VAT and other taxes recoverable	17	195,752	89,434
Cash	10	179,496	167,988
		861,557	631,992
Total assets		**6,522,440**	**5,092,466**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	22	70,883	70,936
Share premium		2,896,355	2,901,350
Cumulative translation reserve		294,169	79,459
Accumulated deficit		(17,960)	(161,708)
Minority interests		220	-
Total equity		**3,243,667**	**2,890,037**
Non-current liabilities			
Long-term borrowings	20	1,464,684	949,123
Long-term finance lease payable	21	1,181	2,913
Deferred tax liabilities	31	214,101	177,604
Long-term deferred revenue		3,221	4,117
Share-based payments liability	30	43,208	-
Other non-current liabilities		-	159
		1,726,395	1,133,916
Current liabilities			
Trade accounts payable		968,505	552,060
Short-term borrowings	20	253,733	218,013
Share-based payments liability	30	2,389	69,990
Short-term finance lease payables	21	2,145	2,271
Interest accrued		2,763	13,544
Short-term deferred revenue		4,943	414
Current income tax payable		33,303	11,511
Provisions and other liabilities	19	284,597	200,710
		1,552,378	1,068,513
Total liabilities		**3,278,773**	**2,202,429**
Total equity and liabilities		**6,522,440**	**5,092,466**

X5 Retail Group N.V. Consolidated Income Statement for the year ended 31 December 2007
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2007	31 December 2006
Revenue	24	5,320,424	2,803,351
Cost of sales		(3,916,493)	(2,041,702)
Gross profit		**1,403,931**	**761,649**
Selling, general and administrative expenses		(1,135,046)	(630,817)
Lease/sublease and other income	26	68,032	36,879
Operating profit		**336,917**	**167,711**
Finance costs	27	(133,019)	(62,952)
Finance income	27	7,230	1,432
Net foreign exchange gain	28	31,545	14,083
Profit before tax		**242,673**	**120,274**
Income tax expense	31	(98,925)	(36,062)
Profit for the year		**143,748**	**84,212**
Attributable to:			
Equity holders of the parent		143,748	84,212
Profit for the year		**143,748**	**84,212**
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	23	2.70	2.13
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	23	2.69	2.12

X5 Retail Group N. V. Consolidated Statement of Cash Flows for the year ended 31 December 2007
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2007	31 December 2006
Profit before tax		**242,673**	**120,274**
Adjustments for:			
Depreciation and amortisation	25	142,376	79,097
Loss / (gain) on disposal of property, plant and equipment		137	(4,241)
Loss on disposal of intangible assets		35	38
Finance costs, net	27	125,789	61,520
Impairment of trade and other accounts receivable	25	1,369	4,073
Loss on disposal of subsidiaries		-	110
Share-based payments expense	30	43,208	27,702
Amortisation of deferred expenses		2,929	1,535
Loss on write-off of other long-term investments		-	400
Net foreign exchange gain	28	(67,195)	(14,083)
Net cash from operating activities before changes in working capital		**491,321**	**276,425**
Increase in trade and other accounts receivable		(65,107)	(61,855)
Increase in inventories		(77,041)	(76,773)
Increase in trade payable		330,154	235,617
(Decrease) / Increase in other accounts payable		(48,234)	52,694
Net cash generated from operations		**631,093**	**426,108**
Interest paid		(109,177)	(63,843)
Interest received		3,380	687
Income tax paid		(97,824)	(46,076)
Net cash from operating activities		**427,472**	**316,876**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(620,233)	(250,706)
Purchase of investment property	12	(9,173)	(5,936)
Non-current prepaid lease		(46,543)	(6,836)
Acquisition of subsidiaries, net of cash acquired	8	(211,412)	227,932
Acquisition of other long-term investments		(211)	(389)
Short-term loans issued in connection with acquisitions	8	(20,157)	-
Loans originated		-	(11,608)
Proceeds from sale of property, plant and equipment		10,949	13,125
Proceeds from sale of investments available-for-sale		-	66
Purchase of intangible assets	14	(1,987)	(6,594)
Net cash used in investing activities		**(898,767)**	**(40,946)**
Cash flows from financing activities			
Proceeds from short-term loans		583,917	204,060
Repayment of short-term loans		(396,016)	(207,232)
Proceeds from long-term loans		1,458,306	470,208
Repayment of long-term loans		(1,167,265)	(225,186)
Distribution to shareholders		-	(300,000)
Acquisition of treasury shares		(5,048)	(76,534)
Principal payments on finance lease obligations		(3,872)	(3,491)
Net cash from / (used in) financing activities		**470,022**	**(138,175)**
Effect of exchange rate changes on cash		12,781	166
Net increase in cash		**11,508**	**137,921**
Movements in cash			
Cash at the beginning of the year		167,988	30,067
Net increase in cash		11,508	137,921
Cash at the end of the year		**179,496**	**167,988**

X5 Retail Group N. V. Consolidated Statement of Changes In Equity for the year ended 31 December 2007
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Attributable to the shareholders of the Company						Minority interest	Total
		Number of shares	Share capital	Share premium	Cumulative translation reserve	Retained earnings / (Accumulated deficit)	Total shareholders' equity		
Balance as at 1 January 2006		**38,306,785**	**30**	**122,152**	**5,724**	**54,080**	**181,986**	**-**	**181,986**
Translation movement		-	-	-	73,735	-	73,735	-	73,735
Profit for the year		-	-	-	-	84,212	84,212	-	84,212
Total recognised income for the year		-	-	-	73,735	84,212	157,947	-	157,947
Reverse acquisition		15,813,253	72,109	2,854,529	-	-	2,926,638	-	2,926,638
Distribution to shareholders (Note 22)		-	-	-	-	(300,000)	(300,000)	-	(300,000)
Acquisition of treasury shares		(902,278)	(1,203)	(75,331)	-	-	(76,534)	-	(76,534)
Balance as at 31 December 2006		**53,217,760**	**70,936**	**2,901,350**	**79,459**	**(161,708)**	**2,890,037**	**-**	**2,890,037**
Translation movement		-	-	-	214,710	-	214,710	-	214,710
Profit for the year		-	-	-	-	143,748	143,748	-	143,748
Total recognised income for the year		-	-	-	214,710	143,748	358,458	-	358,458
Acquisition of treasury shares		(40,000)	(53)	(4,995)	-	-	(5,048)	-	(5,048)
Acquisition of subsidiaries	8	-	-	-	-	-	-	220	220
Balance as at 31 December 2007		**53,177,760**	**70,883**	**2,896,355**	**294,169**	**(17,960)**	**3,243,447**	**220**	**3,243,667**

1. PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the “Company”) and its subsidiaries, as set out in Note 7 (the “Group”).

X5 Retail Group N.V. is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for the group of companies that operate retail grocery stores. The Company’s address and tax domicile is Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

On 18 May 2006, the Company acquired 100% of Perekrestok Holdings Ltd., the parent company for the group of companies that operate stores under the “Perekrestok” brand (Note 8). Although legally X5 Retail Group N.V. is regarded as the parent and Perekrestok Holdings Ltd. is regarded as the subsidiary, Perekrestok Holdings Ltd. is identified as the acquirer under IFRS 3 *Business Combinations* and the acquisition of Perekrestok Holdings Ltd. is accounted for as a reverse acquisition (Note 2.1). Consequently, through the period ended 18 May 2006 consolidated statement of income and consolidated statement of cash flows relate only to the acquirer (Note 8).

The main activity of the Group is the development and operation of grocery retail stores. As of 31 December 2007 and 31 December 2006 the Group operated a retail chain of soft-discount and supermarket stores under the brand names “Pyaterochka” and “Perekrestok” in major population centers in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Krasnodar, Kazan, Samara, Chelyabinsk, Ekaterinburg and Kiev, Ukraine with the following number of stores:

	31 December 2007	31 December 2006
Supermarket		
Moscow	105	101
Nizhniy Novgorod	18	16
Samara	8	6
North-West	19	17
Tatarstan	5	2
Ukraine	5	4
Central-Chernozem	11	4
South	8	6
	179	**156**
Discounter		
Moscow	309	222
Nizhniy Novgorod	18	-
Samara	5	-
North-West	244	204
Ekaterinburg	34	25
Central-Chernozem	15	-
Chelyabinsk	49	-
	674	**451**
Hypermarket		
West Siberia	1	1
Moscow	4	4
Nizhniy Novgorod	2	1
Samara	2	1
Tatarstan	3	3
Central-Chernozem	2	1
South	1	1
	15	**12**
Total stores	**868**	**619**

In addition, as of 31 December 2007 the Group's franchisees operated 680 stores under the "Pyaterochka" brand name and 8 stores under the "Perekrestok" brand name (31 December 2006: 605 and 10 respectively) in Russia and neighbouring countries, Kazakhstan and Ukraine.

The Group is a member of the Alfa Group Consortium. As of 31 December 2007 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 26.2% and 22.2% of total issued shares, respectively. The Group owns 942,278 (1.74%) of its shares (Note 22). As of 31 December 2007 the Company's shares are listed on the London Stock Exchange in form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share. As of 31 December 2007 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a company registered at Suite 2, 4 Irish Place, Gibraltar. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1. Basis of preparation
These consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union. They have been prepared under the historical cost convention as modified by available-for-sale investments, derivative financial investments and share-based payments liability.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the European Union through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 *Financial Instruments: Recognition and Measurement*, on portfolio hedging. Since the Group is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying consolidated financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

These consolidated financial statements are issued under the name of X5 Retail Group N.V. but represent a continuation of the consolidated financial statements of Perekrestok Holdings Ltd. accordingly:

(a) the assets and liabilities of the legal subsidiary, i.e. Perekrestok Holdings Ltd., are recognised and measured at their pre-combination carrying amounts. The assets and liabilities of X5 Retail Group N.V. are recognised at their fair value at the date of acquisition;

(b) the consolidated retained earnings and other equity balances recognised at the date of acquisition are the retained earnings and other equity balances of Perekrestok Holdings Ltd. immediately before the business combination;

(c) the equity structure reflects the equity structure of X5 Retail Group N.V.; and

(d) the comparative information presented in these consolidated financial statements is that of Perekrestok Holdings Ltd.

2.2. Accounting for the effects of inflation
The Russian Federation was considered hyperinflationary prior to 1 January 2003. As a result, balances and transactions were restated for the changes in the general purchasing power of the Russian Rouble up to 31 December 2002 in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003, the Group does not apply the provisions of IAS 29 to assets acquired or revalued and liabilities incurred or assumed after that date. For other assets and liabilities, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2.3. Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

The Group accounts for options to acquire subsidiaries in business combinations at cost.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the Group's share in net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

2.4. Minority interest

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

When the Group purchases a minority interest, the difference between its carrying amount and the amount paid to acquire it is recorded as goodwill. Gains or losses on disposal of a minority interest, determined as the difference between its carrying amount and proceeds received or receivable, are recorded in the statement of income.

2.5. Foreign currency translation and transactions

(a) Functional and presentation currency

Functional currency. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's entities are the national currency of the Russian Federation, Russian Rouble ("RR") and the national currency of Ukraine, Ukrainian Hryvnia ("UAH"). The Group's presentation currency is the US Dollar ("USD"), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

Translation from functional to presentation currency. The results and financial position of each Group entity (none of which have a functional currency that is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity as a cumulative translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items.

At 31 December 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 24.5462 (31 December 2006: USD 1 = RR 26.3311). Average rate for year ended 31 December 2007 was USD 1 = RR 25.577 (12 months 2006: USD 1 = RR 27.1852).

At 31 December 2007, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 5.0500 (31 December 2006: USD 1 = UAH 5.0500). Average rate for 12 months 2007 was USD 1 = UAH 5.0500 (12 months 2006: USD 1 = UAH 5.0500).

2.6. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of its revenue earned from sales to external customers and whose internal and external revenue or result or assets are ten percent or more of all segments are reported separately. The Group identifies business segments as its primary segment reporting format while geographical segments are its secondary segment reporting format.

2.7. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. The Group does not capitalise borrowing costs but recognises them as an expense in the period in which they are incurred.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of property, plant and equipment or part's estimated useful life whichever is sooner.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings	20-50 years
Machinery and equipment	5-10 years
Refrigerating equipment	7-10 years
Vehicles	5-7 years
Other	3-5 years

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Company and the cost can be measured reliably. The capitalised leasehold improvements are depreciated over their useful lives but not longer than the terms of the leases.

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.8. Investment property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of an owned shopping center that is leased to third party retailers as investment property, unless it represents an insignificant portion of the property and is used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. The Group uses the ratio of leased out space to total store space as criteria to distinguish investment property from Group-occupied property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 20-50 years.

2.9. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on the acquisition of subsidiaries is presented as part of intangible assets in the consolidated balance sheet.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

(b) Lease rights

Lease rights represent rights for favourable operating leases acquired in business combinations. Lease rights acquired in a business combination are recognised initially at fair value. Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts – ranging from 10 to 20 years (15 on average).

(c) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Brand and private labels are amortised using the straight-line method over their useful lives:

	Useful lives
Brand	20 years
Private labels	5-8 years

(d) Franchise agreements

Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using straight-line method over their useful lives that are, on average, ranging from 5 to 10 years (8 on average).

(e) Other intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives ranging from 3 to 4 years.

(f) Impairment of intangible assets

Where an indication of impairment exists, the recoverable amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever impairment indicators exist.

2.10. Operating leases

Leases of assets under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

An asset leased out by the Group under operating leases is included in investment property in the balance sheet, unless it represents an insignificant portion of property and is used primarily to provide auxiliary services to retail customers not provided by the Group, rather than to earn rental income. It is depreciated over its expected useful life on a basis consistent with similar fixed assets and investment property. Rental income is recognised in the income statement on a straight-line basis over the lease term.

The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 35).

Initial direct costs incurred by the Group in negotiating and arranging an operating lease including key money paid to lessors or previous tenants for entering into lease contracts are recognised as prepaid leases and expensed on a straight-line basis over the lease term.

2.11. Finance lease liabilities

Where the Group is a lessee in a lease, which transfers substantially all the risks and rewards incidental to ownership to the Group, the leased assets are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases as well as leasehold improvements are depreciated over their useful life or the lease term, if shorter and if the Group is not reasonably certain that it will obtain ownership by the end of the lease.

2.12. Trade receivables

Trade receivables are initially recognised at their fair values and are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group determines that there is objective evidence of impairment by assessing groups of receivables against credit risk factors established based on historical loss experience for each group. Indications that the trade receivable may be impaired include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

2.13. Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales.

2.14. Financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. The Group designates investments as available-for-sale only when they fall outside the other categories of financial assets.

Initial recognition of financial instruments

Financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. Subsequent to initial recognition, the fair values of financial instruments measured at fair value are bid prices quoted at active markets. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Impairment

The Group reviews the carrying value of its financial assets on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the Group records an impairment loss and reduces the carrying amount of assets by using allowance account. The Group does not reduce the carrying amount of impaired financial assets directly but rather uses an allowance account.

Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are mainly derivatives.

Derivative financial instruments are recognised initially on a settlement date basis and subsequently remeasured at fair value. The Group generally acquires derivative financial instruments quoted at active markets and therefore subsequent remeasurement is based on active market quotations rather than valuation techniques. Gains and losses resulting from the fair value remeasurement are recognised in the consolidated income statement as fair value gains (losses) on financial instruments. Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate swaps and currency options are carried as trading assets or liabilities at fair value through profit or loss. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group does not apply hedge accounting.

Loans and receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Receivables are written off only in case of debtor's insolvency.

Available-for-sale

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

Financial liabilities are classified according to the substance of the contractual arrangements entered into the following measurement categories: (a) financial derivatives and (b) other financial liabilities. Financial derivatives are carried at fair value with changes in value recognised in the consolidated income statement in the period in which they arise. Other financial are carried at amortised cost.

2.15. Cash

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.16. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

2.17. Value added tax

Value added tax related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project can not be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.18. Employee benefits

Wages, salaries, bonuses, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of its employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.19. Share-based payments

The Group issues options to certain employees that give the employees the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments.

Share-based payment transactions, or the components of such transactions, are accounted for as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payments transactions are measured at the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to the cash or equity instruments were granted. The fair value is determined using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date. The Group records an expense based on the fair value of options related to the shares expected to vest on a straight-line basis over the vesting period.

At the date of settlement, the Group will remeasure the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability will be transferred directly to equity, as the consideration for the equity instruments issued.

2.20. Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.21. Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligation under the contract and are carried at amortised cost using the effective interest method.

2.22. Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2.23. Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared on or before the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2.24. Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.25. Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share are calculated by adjusting the earnings and the number of shares for the effects of dilutive options.

For the purpose of calculating the weighted average number of ordinary shares outstanding during the period in which the reverse acquisition occurs:

- the number of ordinary shares outstanding from the beginning of that period to the acquisition date is the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary;

- the number of ordinary shares outstanding from the acquisition date to the end of that period is the actual number of ordinary shares of the legal parent outstanding during that period.

2.26. Taxes

Current income tax liabilities (assets) are measured in accordance with IAS 12 *Income Taxes*, based on legislation that is enacted or substantively enacted at the balance sheet date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date.

Taxes other than on income, interest and penalties are measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Group provides against tax contingencies and the related interest and penalties where management can make a reliable estimate of the amount of the additional taxes that may be due. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and considered as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for such taxes, interest and penalties are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date (Notes 31 and 35).

2.27. Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

(a) Revenue

Revenue from the sale of goods through retail outlets is recognised at the point of sale. Revenue from franchisee fees is recognised based on contractual agreements over the term of the contracts. The up-front non-refundable franchisee fees received by the Group are deferred and recognised over the standard contractual term of 10 years. Revenue from advertising services is recognised based on contractual agreements. Revenues are measured at the fair value of the consideration received or receivable. Revenues are recognised net of value added tax.

The group launched a loyalty card scheme in 2007. Discounts earned by customers through loyalty cards, are recorded by the Group by allocating some of the consideration received from the initial sales transaction to the award credits and deferring the recognition of revenue. The allocation is made by the reference to the relative fair values of the components adjusted for expected forfeitures.

(b) Cost of sales

Cost of sales include the purchase price of the products sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e. retail outlets. These costs include costs of purchasing, storing, rent, salaries and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of slotting fees, volume discounts, and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales.

Bonuses received from suppliers are recorded as a reduction in the price paid for the products and are recognised in cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

(c) Interest income and expense

Interest income and expense are recognised on an effective yield basis.

(d) Selling, general and administrative expenses

Selling expenses consist of salaries and wages of stores employees, store expenses, rent or depreciation of stores, utilities, advertising costs and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, rent and depreciation of support offices, impairment and amortisation charges of non-current charges and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred. The Group recognised start-up costs of stores as an expense in the period in which they are incurred.

2.28. Impairment of non-current assets other than goodwill

The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2.29. Fair value of assets and liabilities at the acquisition date

In November 2006, the Group acquired Merkado Group. Fair values of assets and liabilities were determined as at the date of acquisition. Management subsequently revised the allocation of fair values. As a result of the revision the final value of identifiable net assets as at the date of acquisition decreased. After the completion of the purchase price allocation the aggregate fair value of the acquired net assets changed by USD 6,097 and amounted to USD 4,367 (Note 8). Also the Group separately disclosed acquired investment property of USD 21,888 in the Merkado net assets (Note 12).

2.30. Reclassifications

Where necessary, corresponding figures have been adjusted to conform to changes in the presentation of the current year. The effect of reclassifications is as follows:

- The Group has disclosed Investment property (Note 12) separately from property, plant and equipment. In the year ended 31 December 2006 investment property in the amount of USD 40,020 was reclassified from property, plant and equipment to a separate line in the balance sheet out of which USD 21,888 relates to acquisition of Merkado (Note 2.29). Besides the effect of investment property acquired as a result of the Merkado acquisition, the investment property business was not material in 2006 and therefore the Group started disclosing it separately only in 2007.

- The Group changed the presentation of expenses reclassifying costs incurred in bringing the inventories to the location and condition ready for sale as cost of sales (Note 25). In the year ended 31 December 2006 expenses of USD 34,162 were reclassified from selling, general and administrative expenses to cost of sales.

Management of the Group believes that these reclassifications provide more relevant and meaningful information about the financial position of the Group.

As a consequence of the reclassifications the previously reported Balance Sheet and Income Statement for the year ended 31 December 2006 were changed.

Consolidated Balance Sheet	31 December 2006 (adjusted)	31 December 2006
Property, plant and equipment	1,265,833	1,311,950
Investment property	40,020	-
Goodwill	2,629,046	2,622,949

Consolidated Income Statement	2006 (adjusted)	2006
Cost of sales	(2,041,702)	(2,007,540)
Gross profit	761,649	795,811
Selling, general and administrative expenses	(630,817)	(664,979)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 35).

Property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 11). This estimate is based on projected product lifecycles and technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. In the current period no such indications exist and therefore no assets impairment testing was performed. In the opposite case, the Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the income statement.

Fair value of lease rights. The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of lease rights is based on the estimate of the market rates of the lease prepared by an independent valuation specialist (Note 14).

Inventory provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of cost of sales (Note 15). This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.

Provision for impairment of trade and other receivables. The Group determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 16). In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectibility of the outstanding accounts receivable balances supplemented by the judgement of management to exclude the impact of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Classification of VAT. The terms of recovery of VAT depends on the registration of certain property, plant and equipment (Note 17).

Fair value of franchise agreements. The Group's management determines the fair value of franchise agreements acquired in business combinations. The assessment of the fair value of franchise agreements is based on the income method using discounted royalty payments during the period of the agreements (Note 14).

Fair value of brand and private labels. The Group' management determines the fair value of brand and private labels acquired in business combinations. The assessment of the fair value of a brand is based on the income approach using the relief-from-royalty method. The assessment of fair value of private labels is based on either the income method using discounted annual savings for the remaining useful life of the labels or the cost method (Note 14).

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of fair value less costs to sell or on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 13.

4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations became effective for the Group from 1 January 2007. Unless otherwise described below, these new standards and interpretations do not significantly affect the Group's consolidated financial statements:

- **IFRS 7 *Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements (Capital Disclosures).*** The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32 *Financial Instruments: Disclosure and Presentation*. The Group added required disclosures to comply with IFRS 7 in these consolidated financial statements.

- **IFRIC 7 *Applying the Restatement Approach under IAS 29 (effective from 1 January 2007).*** The Interpretation clarifies the application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation under with IAS 29.

- **IFRIC 8 *Scope of IFRS 2 (effective from 1 January 2007).*** The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

- **IFRIC 9 *Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006 that is from 1 January 2007).*** The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact.

- **IFRIC 10 *Financial Reporting and Impairment (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).*** The interpretation clarifies that an entity should not reverse an impairment loss recognised in previous periods in respect of goodwill or an investment in a financial asset carried at cost. The interpretation is applicable for interim periods.

5. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8 *Operating Segments (effective for annual periods beginning on or after 1 January 2009).* The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation* – IAS 32 *and* IAS 1 *Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23 *Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).* The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1 ***Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).*** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27 ***Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).*** The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3 ***Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).*** The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to **IFRS 2** ***Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).*** The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13 ***Customer loyalty programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008).*** IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. It is the policy of the Group to recognise deferred revenue on customer loyalty programme as a reduction of revenue, thus, this interpretation will have no impact on consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 – T*he Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

All of the above new standards and interpretations are not yet adopted by the European Union except for IFRS 8 and IFRIC 11.

6. SEGMENT REPORTING

The Group has the following business segments:

	Retail trade	Other	Group
Year ended 31 December 2007			
Sales – external	5,295,091	25,333	5,320,424
Sales to other segments	-	-	-
Total revenue	**5,295,091**	**25,333**	**5,320,424**
Segment result	424,505	19,390	443,895
Unallocated expenses			(106,978)
Operating profit			**336,917**
Finance costs, net			(125,789)
Share of result of associates			-
Unallocated expenses			31,545
Profit before income tax			**242,673**
Income tax expense			(98,925)
Profit for the year			**143,748**
Capital expenditure	610,634	9,173	619,807
Depreciation and amortisation	132,730	9,646	142,376
Doubtful debtors expense	1,369	-	1,369
As at 31 December 2007			
Segment assets	6,291,212	192,823	6,484,035
Investment in associate			-
Current and deferred tax assets			28,357
Other unallocated assets			10,048
Total assets			**6,522,440**
Segment liabilities	968,505	-	968,505
Current and deferred tax liability			214,101
Other unallocated liabilities			2,096,167
Total liabilities			**3,278,773**

	Retail trade	Other	Group
Year ended 31 December 2006			
Sales – external	2,791,532	11,819	2,803,351
Sales to other segments	-	-	-
Total revenue	2,791,532	11,819	2,803,351
Segment result	167,270	40,266	207,536
Unallocated expenses			(39,825)
Operating profit			167,711
Finance costs, net			(61,520)
Share of result of associates			-
Unallocated expenses			14,083
Profit before income tax			120,274
Income tax expense			(36,062)
Profit for the year			**84,212**
Capital expenditure	250,706	5,936	256,642
Depreciation and amortisation	73,750	5,347	79,097
Doubtful debtors expense	4,073	-	4,073
As at 31 December 2006			
Segment assets	4,950,017	106,965	5,056,982
Investment in associate			-
Current and deferred tax assets			18,626
Other unallocated assets			16,858
Total assets			**5,092,466**
Segment liabilities	552,060	-	552,060
Current and deferred tax liability			177,604
Other unallocated liabilities			1,472,765
Total liabilities			**2,202,429**

The Group has the following geographical segments:

	Russia	Other	Group
Year ended 31 December 2007			
Sales – external	5,288,118	32,306	5,320,424
Capital expenditure	616,018	3,789	619,807
As at 31 December 2007			
Segment assets	6,503,191	19,249	6,522,440
Year ended 31 December 2006			
Sales – external	2,776,748	26,603	2,803,351
Capital expenditure	255,872	770	256,642
As at 31 December 2006			
Segment assets	5,055,598	36,868	5,092,466

7. SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2007 are as follows:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2007**	**31 December 2006**
Agroaspekt OOO	Russia	Retailing	100	100
Agroavto OOO	Russia	Logistic operator	100	100
Agrostar ZAO	Russia	Logistic operator	100	100
Agrotorg OOO	Russia	Retailing	100	100
Aliance Service OOO	Russia	Real estate	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
Beta Estate OOO	Russia	Real estate	100	100
Ceizer ZAO	Russia	Real estate	100	100
Center SPAR Ukraine ZAT	Ukraine	Retailing	100	100
Discount-Invest OOO	Russia	Retailing	100	100
Elicon OOO	Russia	Real estate	100	100
Metronom AG OOO	Russia	Real estate	100	100
Orient Nedvizhimost OOO	Russia	Real estate	100	100
Perekrestok-2000 OOO	Russia	Retailing	100	100
Perekrestok Holdings Ltd.	Gibraltar	Holding Company	100	100
Pyaterochka 2005 OOO	Russia	Real estate	100	100
Pyaterochka Finance OOO	Russia	Bonds issuer	100	100
Remtransavto ZAO	Russia	Real estate	100	100
Rubin OOO TK	Russia	Retailing	100	100
Set' Roznichnoy Torgovli OOO	Russia	Real estate	100	100
Sladkaya Zhizn N.N. OOO	Russia	Retailing	100	100
Speak Global Ltd.	Cyprus	Real estate and trade mark	100	100
Telprice OOO	Russia	Real estate	100	100
TH Perekrestok ZAO	Russia	Retailing	100	100
Ural-Agro-Torg OOO	Russia	Retailing	51	26*
Ural Retail OOO	Russia	Retailing	51	100
Uzhnyi OOO	Russia	Retailing	100	100

* control obtained from 1 January 2007 (Note 8)

8. ACQUISITION OF SUBSIDIARIES

Pyaterochka

On 18 May 2006, the Group acquired Pyaterochka Holding N.V. The acquisition was structured as follows:

- On 12 April 2006 and on 18 May 2006 the shareholders of Perekrestok Holdings Ltd. acquired 2,467,917 and 12,068,115 ordinary voting shares of Pyaterochka Holding N.V., respectively, for a cash consideration of USD 1,178,000.
- Pyaterochka Holding N.V. acquired 100% of the ordinary voting shares of Perekrestok Holdings Ltd. for 15,813,253 newly issued shares of Pyaterochka Holding N.V. and a cash consideration of USD 300,000.

On completion of the transaction, shareholders and other related parties of Perekrestok Holdings Ltd. obtained control over 56% of Pyaterochka Holding N.V. shares.

The cash consideration paid by Pyaterochka Holding N.V. for the shares of Perekrestok Holdings Ltd. is treated as a distribution of Perekrestok Holdings Ltd's retained earnings to its shareholders.

In the year ended 31 December 2006 the acquired business of Pyaterochka contributed revenue of USD 1,291,074 and net profit of USD 63,542 from the date of acquisition. If the acquisition of Pyaterochka had occurred on 1 January 2006, the Group's revenue for 2006 would have been USD 3,485,412 and the Group's profit for 2006 would have been USD 102,239.

In estimating effect of Pyaterochka contribution to revenue and net profit of the Group it is assumed that depreciation and amortisation of fair valued property, plant and equipment and intangibles was evenly charged throughout the year.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, IFRS	Fair values
Cash and cash equivalents	327,504	327,504
Inventory of goods for resale	58,750	58,750
Trade and other accounts receivable	73,514	73,514
Intangible assets (Note 14)	1,451	438,661
Property, plant and equipment (Note 11)	524,873	638,209
Derivative financial asset	-	-
Long-term prepaid lease expenses	4,589	-
Deferred tax asset (Note 31)	1,633	1,633
Other assets	1,165	1,165
Short-term borrowings	(37,295)	(37,295)
Trade and other accounts payable	(257,307)	(252,307)
Provisions and liabilities for tax uncertainties (Note 35)	-	(30,000)
Long-term liability for share-based payments	(42,288)	(42,288)
Long-term borrowings	(544,034)	(557,165)
Non-current lease payable	(3,714)	(3,714)
Deferred tax liability (Note 31)	(9,110)	(136,989)
Net assets acquired	99,731	479,678
Goodwill (Note 13)		2,446,960
Total acquisition cost		2,926,638
Net cash inflow arising from the acquisition		**327,504**

The total acquisition cost is determined based on the published share price of the ordinary voting shares of Pyaterochka Holding N.V. on 12 April 2006, the exchange date, and represents the market capitalisation of Pyaterochka Holding N.V. on that date.

The non-cash component of the cost of acquisition of Pyaterochka was excluded from the consolidated statement of cash flows.

As a result of the business combination with Pyaterochka the Group obtained an option to acquire 100% of the shares of Formata Holding BV (a chain of hypermarkets operating under "Karusel" brand in Saint Petersburg). It is exercisable in the period from 1 January 2008 until 1 July 2008 at a price that is calculated based on the acquiree's sales, EBITDA and debt. The Group has used multipliers to assign a fair value to the option rather than applying other valuation techniques. This is due to high volatility of the acquiree's sales and EBITDA for the recent period that made the results of applying other valuation techniques highly dispersed. Due to significant uncertainties in estimation of the fair value which was also confirmed by an independent valuation specialist the Group concluded that the fair value of the option approximated zero at the acquisition date. Subsequently, the Group measures the option at cost.

Pyaterochka goodwill is justified by the following factors i) know how and developed technologies of Pyaterochka in retail business that contributed to the fact that it is one of the most profitable retailers in Russia, ii) qualified management team and staff of Pyaterochka, iii) expected cost and revenue synergies from the business combination, iv) business concentration v) business contacts acquired together with assets of Pyaterochka. Each of the factors contributed to the acquisition cost that results in the recognition of goodwill. However, these intangible assets are not separately recognised in the balance sheet of the Company because they are either not separable or there are no reliable bases for estimating their fair values.

Merkado

In November 2006, the Group acquired 100% of the voting shares of OAO Merkado Group and OOO Metronom AG for USD 101,061. OAO Merkado Group and OOO Metronom AG operate 17 retail grocery stores in Moscow.

In the year ended 31 December 2006 the acquired business of Merkado contributed revenue of USD 16,596 and net loss of USD 3,260 from the date of acquisition. If the acquisition of Merkado had occurred on 1 January 2006, the Group's revenue for 2006 would have been USD 2,869,407 and the Group's profit for 2006 would have been USD 71,194. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Merkado.

In estimating effect of Merkado contribution to revenue and net profit of the Group it is assumed that depreciation and amortisation of fair valued property, plant and equipment and intangibles was evenly charged throughout the year.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	1,488	1,489
Inventory of goods for resale	6,823	3,611
Trade and other accounts receivable	16,301	7,261
Intangible assets (Note 14)	40,976	34,974
Property, plant and equipment (Note 11)	29,730	93,870
Investment property (Note 12)	-	21,888
Other assets	1,239	1
Short-term borrowings	(3,740)	(3,740)
Trade and other accounts payable	(12,245)	(15,166)
Provisions and liabilities for tax uncertainties (Note 35)	-	(10,000)
Long-term borrowings	(99,376)	(99,376)
Deferred tax liability (Note 31)	434	(30,445)
Net assets acquired	(18,370)	4,367
Goodwill (Note 13)		96,694
Total acquisition cost		101,061
Net cash outflow arising from the acquisition		**99,572**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

The purchase consideration comprises cash and cash equivalents paid of USD 101,061.

For identification of fair values the Group engaged an independent valuation specialist. In estimating the fair values for the majority of Pyaterochka and Merkado's property, plant and equipment direct references to observable prices in an active market were used (market approach). However, where there was no active market providing reliable information of prices for certain items of property, plant and equipment, then the depreciated replacement cost approach was applied. Fair values of intangible assets were determined using the replacement cost or discounted cash flows methods. These valuation techniques were used since there is no reliable information for market transactions.

Several intangible assets cannot be separately recognised in the balance sheet of the Company because they are either not separable or there are no reliable bases for estimating their fair values. These intangible assets contributed to the recognition of the Merkado goodwill: i) business concentration in the Moscow region ii) qualified management team of Merkado iii) expected cost synergies from the business combination.

Under the purchase agreement, the Group has an indemnity for all costs in excess of USD 1,000 that the Group may suffer, including claims in respect of any tax liability or indebtedness arising out of any matter that occurred prior to the date of completion of the acquisition, 17 November 2006, up to a limit of USD 20,000. Furthermore, if the aggregate amount of claims made by the Group to the sellers exceeds USD 20,000 the Group has an option to sell back 100% of the voting shares of the Merkado Group to the former shareholders. Management estimates that the cost and fair value of the option on the date of acquisition is insignificant. The option expired by the end of 2007.

Chelyabinsk

At 1 January 2007 the Group obtained control via contractual arrangements over OOO "Ural-Agro-Torg" and OOO "Leto", entities of the Chelyabinsk region. The Group increased its shareholding in OOO "Ural-Agro-Torg" and OOO "Leto" from 26% to 51% in exchange of 49% of shares of OOO "Ural-Retail" and OOO "Legion" (the fair value of the shares given as consideration to USD 220 as at the date of business combination).

In the year ended 31 December 2007 the acquired business of Chelyabinsk entities contributed revenue of USD 92,996 and net loss of USD 3,530 from the date of acquisition.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	1,699	1,699
Inventory of goods for resale	4,441	4,296
Trade and other accounts receivable	4,466	1,994
Intangible assets (Note 14)	-	486
Property, plant and equipment (Note 11)	6,763	11,172
Derivative financial asset**	-	1,500
Deferred tax asset (Note 31)	-	694
Other assets	1,101	-
Short-term borrowings	(14,179)	(12,974)
Trade and other accounts payable	(8,558)	(10,406)
Deferred tax liability (Note 31)	-	(1,217)
Net assets acquired	(4,267)	(2,756)
Goodwill (Note 13)		7,697
Total acquisition cost		4,941
Net cash outflow arising from the acquisition		**3,242**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

** under the Shareholders Agreement the Group also acquired an option to purchase the remaining 49% of the share capital of OOO "Ural-Agro-Torg" , OOO "Leto", OOO "Ural-Retail" and OOO "Legion".

The option is exercisable in the period from 1 January 2008 until 30 June 2009 at a price that is calculated based on the acquiree's sales and debt. The Group considers change in the value of the option between the date of acquisition and the reporting date as insignificant.

The purchase consideration comprises cash and cash equivalents paid of USD 4,941.

The goodwill recognised is attributable to: i) the business concentration in the Ural region and ii) expected cost synergies from the business combination.

Korzinka

In November 2007 the Group acquired 100% shareholding in OOO "Uzhnyi" operating the largest and fastest growing retail chain in the Lipetsk region under "Korzinka" brand. The Group acquired 22 stores in total, of which 15 will be integrated into the Group's discounter format, 6 into the supermarket format and one store will be added to the hypermarket network.

In the year ended 31 December 2007 the acquired business of Korzinka contributed revenue of USD 20,044 and net profit of USD 368 from the date of acquisition. If the acquisition of Korzinka had occurred on 1 January 2007, the Group's revenue for 2007 would have been USD 5,464,530 and the Group's profit for 2007 would have been USD 141,431. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Korzinka.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	**Provisional values**
Cash and cash equivalents	992	992
Inventory of goods for resale	7,777	7,241
Trade and other accounts receivable	9,129	8,993
Intangible assets (Note 14)	-	25,293
Property, plant and equipment (Note 11)	23,562	37,289
Short-term borrowings	(7,098)	(7,098)
Trade and other accounts payable	(14,853)	(15,027)
Provisions and liabilities for tax uncertainties (Note 35)	-	(7,883)
Deferred tax liability (Note 31)	-	(9,365)
Net assets acquired	19,509	40,435
Goodwill (Note 13)		61,714
Total acquisition cost		102,149
Net cash outflow arising from the acquisition		**92,308**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 93,300 and deferred consideration of USD 8,849.

The goodwill recognised is attributable to: i) the business concentration in the Lipetsk region ii) expected synergetic effects and iii) favourable locations of retail outlets in Lipetsk city.

Strana Gerkulesia

In December 2007 the Group acquired 100% of the voting shares of OOO "Rubin TK" and OOO "RPH Nedvizhimost" operating retail grocery stores in Moscow and in the Moscow region under "Strana Gerkulesia" brand. The Group acquired a total of 29 discount stores, of which 26 are operational and three are scheduled for opening in 2008. Five stores are located in Moscow, 16 stores operate close to Moscow and eight stores are located in other areas of the Moscow region and in the Tver region.

In the year ended 31 December 2007 the acquired business of Strana Gerkulesia did not contribute revenue and net profit to the Group. If the acquisition of Strana Gerkulesia had occurred on 1 January 2007, the Group's revenue for 2007 would have been USD 5,402,032 and the Group's profit for 2007 would have been USD 143,046. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Strana Gerkulesia.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	**Provisional values**
Cash and cash equivalents	2,408	2,408
Investments available-for-sale	34	-
Inventory of goods for resale	8,252	3,975
Trade and other accounts receivable	29,754	5,467
Intangible assets (Note 14)	-	2,800
Property, plant and equipment (Note 11)	3,748	26,825
Short-term borrowings	(6,347)	(1,885)
Trade and other accounts payable	(14,012)	(10,547)
Provisions and liabilities for tax uncertainties (Note 35)	-	(7,677)
Deferred tax liability (Note 31)	-	(6,712)
Net assets acquired	23,837	14,654
Goodwill (Note 13)		46,773
Total acquisition cost		61,427
Net cash outflow arising from the acquisition		**59,019**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

In estimating provisional values of property and lease rights direct references to observable prices in an active market are used (market approach).

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 37,903 and loan of USD 23,524 originated to OOO "Rubin TK" at the moment of acquisition.

The goodwill recognised is attributable to: i) the business concentration in the Moscow region and its neighboring areas and ii) expected cost synergies from the business combination.

Other acquisitions

In November the Group acquired several other companies. Their primary activity is operating of trade centers and earning rental income. No goodwill was recognised on these acquisitions. Details of assets and liabilities acquired are as follows:

In the year ended 31 December 2007 the acquired businesses of other acquisitions did not contribute significant revenue nor significant profit to the Group. If other acquisitions had occurred on 1 January 2007, the Group's revenue and profit would have not changed significantly. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of other acquired businesses.

	Acquiree's carrying amount, Russian GAAP*	Provisional values
Cash and cash equivalents	2,984	2,984
Loans originated	46	46
Inventory of goods for resale	1	1
Trade and other accounts receivable	2,923	2,923
Property, plant and equipment (Note 11)	20,946	43,314
Investment property (Note 12)	-	77,524
Short-term borrowings	(14,603)	(14,603)
Trade and other accounts payable	(3,251)	(3,250)
Long-term borrowings	(1,418)	(1,418)
Deferred tax liability (Note 31)	-	(22,287)
Net assets acquired	7,628	85,234
Total acquisition cost		85,234
Net cash outflow arising from the acquisition		**56,843**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 59,827 and loans receivable of USD 25,407 out of which USD 20,157 were issued in 2007 and USD 5,250 issued in 2005.

9. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa Group

The following transactions were carried out with members or management of Alfa Group:

	Relationship	2007	2006
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,315	890
OAO "Alfa-Bank"	Under common control		
Interest expense on loans received		2,622	598
Bank charges		495	256
Rent revenue		208	-
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		532	487
Commission for mobile phone payments processing rendered by the Group to VimpelCom		633	489
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		2,010	1,645

Argonot and Argonot-B

In November 2007 the Group acquired 100% in share capital of OOO "Argonot" and "Argonot-B". Their primary activity is operating of trade centers and earning rental income. No goodwill was recognised on these acquisitions. Details of assets and liabilities acquired are disclosed in Note 8. The purchase consideration comprises cash and cash equivalents paid of USD 39,556.

The consolidated financial statements include the following balances with members of the Alfa Group:

	31 December 2007	31 December 2006
Cash and cash equivalents		
OAO "Alfa-Bank"	10,684	20,173
Short-term loans payable		
OAO "Alfa-Bank"	2,649	16,400
Receivable from related party		
VimpelCom	102	109
Golden Telecom	159	252
OAO "Alfa-Bank"	225	-
Other accounts payable		
VimpelCom	18	6
CTF Holding Ltd.	-	256

Alfa-Bank

The Group has an open credit line with Alfa-Bank. This credit line has a maximum limit of USD 150,000 and a floating interest rate. At 31 December 2007 the Group had USD 2,649 under this credit line at interest rate 9.88% p.a. (31 December 2006: 16,400) (Note 32) and therefore had available credit line of USD 147,351.

Other related parties

The following transactions were carried out with other related parties controlled by management of the Group:

ZAO "Novye Roznichnye Technologii"

The following transactions were carried out with ZAO "Novye Roznichnye Technologii":

	2007	2006
Operating lease expenses	1,249	881
Communication services	92	-

The consolidated financial statements include the following balances with ZAO "Novye Roznichnye Technologii":

	31 December 2007	31 December 2006
Accounts payable	145	152

OOO "Rusel" and OOO "Rusel M"

The following transactions were carried out with OOO "Rusel" and OOO "Rusel M":

	2007	2006
Outsourcing services provided by the Group	66	1,549
Rental income received by the Group	528	481

The consolidated financial statements include the following balances with OOO "Rusel" and OOO "Rusel M":

	31 December 2007	31 December 2006
Accounts receivable	228	504

OOO "Media 5" and OOO "Media 5M"

The following transactions were carried out with OOO "Media 5" and OOO "Media 5M":

	2007	2006
Advertising services provided by the Group	238	3,325

The consolidated financial statements include the following balances with OOO "Media 5" and OOO "Media 5M":

	31 December 2007	31 December 2006
Loans and receivables	52	115

The carrying value of loans and receivables approximates their fair value. Financial assets are not collateralised. None of the financial assets are either past due or impaired. The Group assesses credit quality of the investments as high.

OOO "Makromir"

The following transactions were carried out with OOO "Makromir":

	Year ended 31 December 2007	Year ended 31 December 2006
Construction services provided to the Group	1,512	761

The consolidated financial statements include the following balances with OOO "Makromir":

	31 December 2007	31 December 2006
Loans and receivables	742	642

The carrying value of loans and receivables approximates their fair value. Financial assets are not collateralised. None of the financial assets are either past due or impaired. The Group assesses credit quality of the investments as high.

Donette Investments Limited

At 31 December 2006 the Group recorded a long-term loan issued to Donette Investments Limited in the amount of USD 5,250 with an interest rate of 10% p.a. In 2007 the Group converted its loan into 30% in the share capital of Donette Investments Limited and subsequently purchased the remaining of 70% in the share capital. Provisional net assets of Donette Investments Limited acquired are USD 45,678 at the date of acquisition. No goodwill was recognised on this acquisition. The purchase consideration comprises cash and cash equivalents paid of USD 20,272 and loans receivable of USD 25,407. The details of the acquisition of Donette Investments Limited are disclosed in Note 8 as part of Other acquisitions.

Multiserve Holdings Limited

The Group entered into an agreement with Multiserve Holdings Limited for payment of the commission directly attributable to acquisition of property, plant and equipment. The commission of USD 1,200 was paid upon completion of the mentioned transaction.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 29.

10. CASH

	31 December 2007	31 December 2006
Cash in hand – Roubles	12,197	6,207
Cash in hand – Ukrainian Hryvnia	137	86
Bank current account – Roubles	46,525	61,740
Bank current account – Ukrainian Hryvnia	177	164
Bank current accounts and deposits – US Dollars	2,741	32,075
Cash in transit – Roubles	112,264	54,715
Cash in transit – Ukrainian Hryvnia	754	354
Short term deposits and other cash equivalents	4,701	12,647
	179,496	**167,988**

The bank accounts represent current accounts with an effective interest rate of nil. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

The Group assesses credit quality of outstanding cash and cash equivalents balances as high and considers that there is no significant individual exposure. Maximum exposure to credit risk at the reporting date is the carrying value of cash and bank balances.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2006	212,996	80,375	23,522	2,002	12,022	50,165	381,082
Additions	63,552	31,306	2,468	1,601	4,566	147,213	250,706
Transfers	93,306	11,894	19,750	3,826	41,996	(170,772)	-
Assets from acquisitions (Note 8)	463,298	12,880	40,048	5,951	32,789	177,113	732,079
Disposals	(13,529)	(3,742)	(476)	(1,088)	(2,003)	(140)	(20,978)
Disposal of subsidiaries	-	(121)	-	-	(18)	-	(139)
Translation movement	35,687	9,157	3,822	398	3,157	5,499	57,720
At 31 December 2006	855,310	141,749	89,134	12,690	92,509	209,078	1,400,470
Additions	144,547	825	4,363	1,143	16,675	443,081	610,634
Transfers	350,347	31,082	23,614	14,453	12,327	(431,823)	-
Assets from acquisitions (Note 8)	104,180	1,063	2,206	107	9,064	1,980	118,600
Disposals	(5,295)	(971)	(2,090)	(277)	(6,031)	(2,407)	(17,071)
Translation movement	81,098	12,534	7,272	2,237	6,609	14,088	123,838
At 31 December 2007	1,530,187	186,282	124,499	30,353	131,153	233,997	2,236,471
Accumulated depreciation:							
At 1 January 2006	(24,389)	(27,381)	(9,844)	(366)	(6,159)	-	(68,139)
Charge for the year	(20,231)	(16,747)	(6,029)	(1,362)	(14,430)	-	(58,799)
Disposals	1,453	3,225	302	326	52	-	5,358
Disposal of subsidiaries	-	120	-	-	18	-	138
Translation movement	(4,184)	(2,363)	(1,298)	(128)	(5,222)	-	(13,195)
At 31 December 2006	(47,351)	(43,146)	(16,869)	(1,530)	(25,741)	-	(134,637)
Charge for the year	(48,954)	(22,504)	(16,294)	(1,354)	(17,945)	-	(107,051)
Disposals	193	1,873	284	64	1,632	-	4,046
Translation movement	(3,105)	(4,307)	(609)	(103)	(2,314)	-	(10,438)
At 31 December 2007	(99,217)	(68,084)	(33,488)	(2,923)	(44,368)	-	(248,080)
Net book value at 31 December 2007	**1,430,970**	**118,198**	**91,011**	**27,430**	**86,785**	**233,997**	**1,988,391**
Net book value at 31 December 2006	**807,959**	**98,603**	**72,265**	**11,160**	**66,768**	**209,078**	**1,265,833**
Net book value at 31 December 2005	**188,607**	**52,994**	**13,678**	**1,636**	**5,863**	**50,165**	**312,943**

Construction in progress predominantly relates to the development of stores through the use of sub-contractors.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 35). Certain land leases are prepaid for the 49 year term. Such prepayments are presented as non-current prepaid leases in the balance sheet and amount to USD 54,846 (31 December 2006: USD 9,440).

The Group leases certain assets under finance leases (Note 21). At 31 December 2007 and 31 December 2006 the net book value of the property, plant and equipment held under finance lease arrangements was:

	31 December 2007	31 December 2006
Gross book value:		
Vehicles	3,106	2,699
Refrigerating equipment	8,931	9,150
	12,037	11,849
Accumulated depreciation:		
Vehicles	(608)	(567)
Refrigerating equipment	(2,842)	(1,873)
	(3,450)	(2,440)
Net book value of property, plant and equipment obtained under finance lease arrangements	**8,587**	**9,409**

Refer to Note 20 for property, plant and equipment pledged as collateral for borrowings.

12. INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2007 and 31 December 2006:

	2007	2006
Cost:		
Cost at 1 January	41,446	12,166
Additions	9,173	5,936
Assets from acquisitions (Note 8)	77,524	21,888
Translation movement	4,452	1,456
Cost at 31 December	132,595	41,446
Accumulated depreciation:		
Accumulated depreciation at 1 January	(1,426)	(511)
Charge for the year	(1,976)	(840)
Translation movement	(187)	(75)
Accumulated depreciation at 31 December	(3,589)	(1,426)
Net book value at 31 December	**129,006**	**40,020**
Net book value at 1 January	**40,020**	**11,655**

Rental income from investment property amounted to USD 9,861 (2006: USD 5,182). Direct operating expenses incurred by the Group in relation to investment property in the year ended 31 December 2007 were USD 6,158 (2006: USD 1,474).

Management estimates that the fair value of investment property at 31 December 2007 amounted to USD 179,065 (31 December 2006: USD 48,322).

Fair value represents the price at which a property could be sold to a knowledgeable, willing party and has generally been determined using the comparative valuation approach. The Group did not engage an independent valuation specialist to assess the fair value of investment properties.

13. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2007 and 31 December 2006 are:

	2007	2006
Cost:		
Gross book value at 1 January	2,629,046	24,153
Acquisition of subsidiaries (Note 8)	116,184	2,543,654
Translation to presentation currency	188,986	61,239
Gross book value at 31 December	2,934,216	2,629,046
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	-	-
Accumulated impairment losses at 31 December	-	-
Carrying amount at 31 December	**2,934,216**	**2,629,046**
Carrying amount at 1 January	**2,629,046**	**24,153**

Goodwill Impairment Test

Goodwill is monitored for internal management purposes at the segment level being the retail trading in Russia (CGU).

Goodwill is tested for impairment at the CGU level by comparing carrying values of CGU assets including allocated goodwill to their recoverable amounts. The recoverable amount of CGU is determined as the higher of fair value less cost to sell or value in use.

Fair value less costs to sell

The Group defines fair value less costs to sell of the CGU by reference to an active market, i.e. as a market capitalisation of the Group on the London stock exchange, since the Group's activities other than retail trade in Russia insignificantly affects the fair value. For indication purposes fair value less costs to sell of the CGU will be lower than its carrying amount if the share price falls below the level of USD 61 per share. The market capitalisation of the Group at 31 December 2007 of USD 7,763,953 significantly exceeded the carrying amount of the CGU.

Value in use

Discounted free cash flow approach, based on current acquisition valuation models, was utilised. For the period from 2007 until 2015 the free cash flows are based on the strategic plan as approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indices as obtained from external resources and based on key performance indicators inherent to the strategic plan. The projections are made in the reporting currency of the Group and discounted at the Group weighted average cost of capital, 12% in US dollar nominal terms. The Group's management believes that all of its estimates are reasonable: they are consistent with the internal reporting and reflect management's best estimates. As the result of the assessment no impairment charge was recognised.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

EBITDA growth rate	18.3%
Pre-tax discount rate	12.0%

Based on the results of the calculations and the applied assumptions the Group concluded that no impairment charge was required. If in the discounted free cash flow model applied for the purpose of goodwill impairment testing the EBITDA growth decreased by 1% the Group would need to reduce the value in use of goodwill by USD 88,334. Also if in the discounted free cash flow model applied for the purpose of goodwill impairment testing the pre-tax discount rate increased by 50 basis points the Group would need to reduce the value in use amount of goodwill by USD 263,476.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

Impairment Test
The fair value less cost to sell significantly exceeded the value in use of the CGU and, thus, was taken as the recoverable amount for the purpose of the impairment test. The recoverable amount of CGU exceeded its carrying amount therefore no impairment was recognised.

14. INTANGIBLE ASSETS

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2006	-	-	1,280	19,138	20,418
Additions	-	-	341	6,253	6,594
Acquisition of subsidiaries (Note 8)	323,526	69,866	4,034	76,209	473,635
Disposals	-	-	(38)	-	(38)
Translation movement	7,689	1,660	241	3,216	12,806
At 31 December 2006	331,215	71,526	5,858	104,816	513,415
Additions	310	-	450	-	760
Acquisition of subsidiaries (Note 8)	1,017	-	70	27,492	28,579
Disposals	(93)	-	(154)	-	(247)
Translation movement	26,110	5,201	388	6,755	38,454
At 31 December 2007	358,559	76,727	6,612	139,063	580,961
Accumulated amortisation:					
At 1 January 2006	-	-	(704)	(674)	(1,378)
Charge for the year	(10,348)	(4,507)	(1,854)	(2,749)	(19,458)
Translation movement	(86)	(74)	(122)	(38)	(320)
At 31 December 2006	(10,434)	(4,581)	(2,680)	(3,461)	(21,156)
Charge for the year	(17,982)	(7,670)	(3,060)	(4,637)	(33,349)
Disposals	-	-	119	-	119
Translation movement	(1,709)	(659)	(258)	(416)	(3,042)
At 31 December 2007	(30,125)	(12,910)	(5,879)	(8,514)	(57,428)
Net book value at 31 December 2007	**328,434**	**63,817**	**733**	**130,549**	**523,533**
Net book value at 31 December 2006	**320,781**	**66,945**	**3,178**	**101,355**	**492,259**
Net book value at 31 December 2005	**-**	**-**	**576**	**18,464**	**19,040**

15. INVENTORIES OF GOODS FOR RESALE

Inventories as of 31 December 2007 and 31 December 2006 comprise the following:

	31 December 2007	31 December 2006
Goods held for resale	333,730	210,543
Less: provision for shrinkage	(8,694)	(1,967)
	325,036	**208,576**

Refer to Note 20 for goods pledged as collateral for borrowings.

Inventory shrinkage recognised as cost of sales in the consolidated income statement amounted to USD 74,436 (2006: USD 28,906).

16. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2007	31 December 2006
Trade accounts receivable	61,881	38,442
Advances made to trade suppliers	11,333	12,478
Other receivables	25,259	32,411
Prepayments	53,970	67,717
Accounts receivable for franchise services	2,762	1,287
Receivables from related parties (Note 9)	1,508	1,622
Provision for impairment of trade and other receivables	(7,576)	(5,732)
	149,137	**148,225**

All classes of receivables are categorised as loans and receivables under IAS 39 classification.

The carrying amounts of the Group's trade and other receivables are primarily denominated in Russian Roubles.

Trade receivables
There are balances of USD 8,935 that are past due but not impaired as at 31 December 2007.

The ageing of these receivables based on days outstanding is as follows:

	31 December 2007	31 December 2006
2-6 months	5,542	4,204
Over 6 months	3,393	5,474
	8,935	**9,678**

Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
At 1 January	(3,206)	(293)
Accrual of provision for receivables impairment	(3,871)	(2,796)
Release of provision for receivables impairment	1,618	-
Translation movement	(328)	(117)
At 31 December	**(5,787)**	**(3,206)**

The creation and release of provision for impaired receivables have been included in general and administrative costs in the income statement.

The individually impaired trade receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 December 2007	31 December 2006
3-6 months	281	2,040
Over 6 months	5,991	3,716
	6,272	**5,756**

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

Other receivables and receivables for franchise services
There are balances of USD 14,857 that are past due but not impaired as at 31 December 2007.

The ageing of these receivables based on days outstanding is as follows:

	31 December 2007	31 December 2006
2-6 months	14,321	5,951
Over 6 months	536	5,719
	14,857	**11,670**

Movements on the provision for impairment of other receivables for the year ended 31 December 2007 are as follows:

	2007	2006
At 1 January	(2,526)	(1,263)
Accrual of provision for receivables impairment	(962)	(1,574)
Release of provision for receivables impairment	1,846	297
Translation movement	(147)	14
At 31 December	**(1,789)**	**(2,526)**

The creation and release of provision for impaired receivables have been included in general and administrative costs in the income statement.

The individually impaired other receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 December 2007	31 December 2006
3-6 months	834	1,346
Over 6 months	3,542	1,266
	4,376	**2,612**

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

17. VAT AND OTHER TAXES RECOVERABLE

	31 December 2007	31 December 2006
VAT recoverable	194,264	85,771
Other taxes receivable	1,488	3,663
	195,752	**89,434**

VAT recoverable related to property, plant and equipment of USD 45,466 (31 December 2006: USD 54,202) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. Timing of the VAT refund depends on the registration of certain property, plant and equipment, therefore there are risks that recovering the balance may take longer than twelve months.

18. FINANCIAL ASSETS AND LIABILITIES

Available-for-sale financial assets include the following:

		31 December 2007	31 December 2006
Bank promissory notes	RUB	-	623

Changes in the fair value of securities classified as available-for-sale were insignificant during the year ended 31 December 2007 (2006: nil).

Derivative financial instruments
The Group recognised the following derivative financial instruments as at 31 December 2007:

	Financial assets at fair value through profit or loss		Financial liabilities at fair value through profit or loss	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Call option for 49% share in subsidiaries (Note 8)	1,500	-	-	-
	1,500	-	-	-

The maturity of derivative financial instruments is as follows:

	Assets	Liabilities
In 1 year or less	1,500	-

None of the financial assets are either past due or impaired.

19. PROVISIONS AND OTHER LIABILITIES

	31 December 2007	31 December 2006
Provisions and liabilities for tax uncertainties (Note 35)	75,671	55,773
Taxes other than income tax	38,727	21,836
Accrued salaries and bonuses	81,680	61,366
Payables to landlords	3,290	7,635
Other accounts payable and accruals	32,205	16,675
Accounts payable for services received	16,211	7,979
Accounts payable for property, plant and equipment	11,458	20,005
Advances received	25,355	9,441
	284,597	**200,710**

There are no significant amounts of foreign accounts payable as at 31 December 2007.

20. BORROWINGS

	Currency	Interest rate, % p.a.	31 December 2007	31 December 2006
Short-term				
Current portion of Syndicated loan	USD	LIBOR+2.25% / 2.5%	-	112,000
Current portion of Perekrestok's bonds	RR	8.15%	122	56,725
Commerzbank	USD	LIBOR+1.4%	90,500	-
Barclays Bank Plc	RR	6.50%	122,219	-
Alfa-Bank	USD	9.88% / 6.9%-7.52%	2,649	16,400
UralSib Bank	USD	6.95%	-	12,760
Raiffeisenbank	USD	Mosprime + 1,2%	15,991	-
Raiffeisenbank overdraft	RR	7.19%-7.34%	-	6,266
Sberbank	RR	11.00%	-	11,431
AKB BIN Bank	RR	16.00%	-	2,279
Amsterdam Trade Bank N.V.	USD	LIBOR + 6%	14,660	-
Sberbank	RR	12.00%	1,222	-
Sberbank	RR	12.20%	1,833	-
Lipeczcombank	RR	13.00%	2,567	-
Other	RR		1,970	152
			253,733	218,013
Long-term				
Syndicated loan **	USD	LIBOR + 2.25% / 2.0%	1,083,226	-
Syndicated loan	USD	LIBOR 2.25% / 2.5%	-	788,016
Pyaterochka Finance's bonds – 1st issue	RR	11.45%	2,956	60,667
Pyaterochka Finance's bonds – 2nd issue	RR	9.30%	12,305	121,590
Perekrestok's bonds	RR	8.15%	-	56,725
Bank Petrocommerz	RR	11.00%	-	90,850
X5 Finance bonds *	RR	7.60%	364,763	-
Sberbank	USD	11.50%	1,422	-
Other loans	RR		12	-
Less:			-	
Current portion of Syndicated loan	USD	LIBOR+2.25% / 2.0%	-	(112,000)
Current portion of Perekrestok's bonds	RR	8.15%	-	(56,725)
			1,464,684	949,123
Total borrowings			**1,718,417**	**1,167,136**

* In July 2007 the Group placed RR 9,000 million (USD 350,172) bonds. The 7-year bonds pay semiannual coupons. Coupons 1 to 6 are equal and amount to 7.60% per annum, the rest to be defined by the Group later. The holders have right to ask for redemption of the bonds at par in 3 years. The funds raised by the bonds were used to refinance other outstanding bond issues of the Group.

** In December 2007 the Group raised a syndicated loan of USD 1,100,000 from a consortium of banks. The loan pays a margin of 2.25% per annum over LIBOR for the first year. Subsequently, the margin will move in accordance with a Net Debt/EBITDA grid with a maximum margin at the top of the grid of 2.0% per annum over LIBOR. LIBOR is repriced every quarter. The loan has a 3-year maturity. The Group has pledged as collateral for the syndicated loan 100% of voting shares, cash in the bank accounts and receivable accounts in its subsidiaries, including OOO "Agrotorg", OOO "Agroaspekt", Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO "TH "Perekrestok", OOO "Perekrestok-2000". The proceeds of the loan were used to refinance the bridge facility in the amount of USD 1,000,000 and for general corporate purposes.

All borrowings at 31 December 2007 are shown net of related transaction costs of USD 18,884 which are amortised over the term of loans using the effective interest method.

The Group maintains optimal capital structure by tracing certain capital requirements based on the ratios included as covenants into loan agreements (Note 33). The new bridge facility includes the following covenants: maximum level of Debt/EBITDA is 4.25, minimum level of EBITDA/Interest expense is 3, minimum level of EBITDAR/Fixed costs is 2.25 and maximum level of capital expenditure.

21. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain refrigerating equipment and vehicles under finance lease terms. The agreements expire in 2008-2009 and assume a transfer of ownership for the leased assets to the Group at the end of the lease term. The effective borrowing rate on lease agreements as of 31 December 2007 varies from 9.0% to 13.0% per annum on USD agreements and from 23.0% to 31.0% per annum on RR agreements. The fair value of the finance lease liability as of 31 December 2007 approximates its carrying amount.

Lease obligations of the Group as of 31 December 2007 and 31 December 2006 consisted of the following:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Amounts payable:				
Within one year	2,653	3,261	2,145	2,271
In the second to fifth years inclusive	1,355	3,879	1,181	2,913
	4,008	7,140	3,326	5,184
Less: future finance charges	(682)	(1,956)	N/A	N/A
Present value of minimum lease payments	**3,326**	**5,184**	**3,326**	**5,184**

22. SHARE CAPITAL

As described in Note 2.1 the equity structure of the Group represents the equity structure of X5 Retail Group N.V. As of 1 January 2006 the Company had 38,306,785 ordinary shares issued and fully paid. The nominal par value of each ordinary share is EUR 1. The Company has only one class of ordinary shares. As part of the acquisition (Note 8) in April 2006 the Group issued an additional 15,813,253 ordinary shares.

During 2007 the Group repurchased 40,000 ordinary shares (2006: 902,278 ordinary shares repurchased) for general corporate purposes, including funding the employees' share option program (ESOP) liabilities and potential acquisitions. As of 31 December 2007 the Group had 190,000,000 authorised ordinary shares of which 53,177,760 ordinary shares are outstanding. As of 31 December 2007 the fair value of outstanding shares amounted to USD 7,763,953 .

No dividends were paid or declared during the year ended 31 December 2007 or the year ended 31 December 2006 other than the USD 300,000 payment to former shareholders of Perekrestok Holdings Ltd. (Note 8).

23. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Earnings per share are calculated as follows:

	2007	2006
Profit attributable to equity holders of the Parent	143,748	84,212
Weighted average number of ordinary shares in issue	53,214,212	39,492,210
Effect of share options granted to employees	143,894	298,272
Weighted average number of ordinary shares for the purposes of diluted earnings per share	53,358,106	39,790,482
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**2.70**	**2.13**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**2.69**	**2.12**

24. REVENUE

	2007	2006
Revenue from sale of goods	5,295,092	2,791,532
Revenue from franchise services	12,507	7,050
Revenue from other services	12,825	4,769
	5,320,424	**2,803,351**

25. EXPENSES BY NATURE

	2007	2006
Cost of product	3,846,268	2,007,540
Staff costs (Note 29)	556,255	302,552
Operating lease expenses	184,635	107,157
Other store costs	99,089	49,120
Depreciation and amortisation	142,376	79,097
Utilities	78,086	30,960
Other	144,830	96,093
	5,051,539	**2,672,519**

Operating lease expenses include USD 176,143 (2006: USD 105,799) of minimum lease payments and contingent rents of USD 8,492 (2006: USD 1,358).

Provision for impairment of trade and other receivables amounted to USD 1,369 during the year ended 31 December 2007 (2006: USD 4,073).

26. OPERATING LEASE INCOME

The Group leases part of its store space to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007	2006
Not later than 1 year	28,380	16,153
Later than 1 year and no later than 5 years	17,820	6,782
Later than 5 years	5,730	1,952
	51,930	**24,887**

The rental income from operating leases recognised in the income statement amounted to USD 67,992 (2006: 35,268 USD). There were no contingent rents recognised in the income statement in the year ended 31 December 2007 (2006: nil).

27. FINANCE INCOME AND COSTS

	2007	2006
Interest expense	101,753	62,952
Interest income	(7,230)	(1,432)
Other finance costs, net	31,266	-
	125,789	**61,520**

Other finance costs include Pyaterochka Finance's bonds redemption costs of USD 10,404 and transaction costs of USD 19,480 written-off to the income statement due to repayment of syndicated loans during the year.

28. NET FOREIGN EXCHANGE GAIN

	2007	2006
Foreign exchange gains	67,195	14,083
Mark-to-market result on foreign exchange collar	(35,650)	-
	31,545	**14,083**

The Group used the foreign exchange collar with leading banking institutions to mitigate foreign currency risks associated with syndicated loan. However management did not formally designate the foreign exchange collars as hedging instruments and did not apply hedge accounting.

29. STAFF COSTS

	2007	2006
Wages and salaries	449,496	254,544
Social security costs	59,050	20,306
Share-based payments expense	47,709	27,702
	556,255	**302,552**

Key executive management personnel

Key management personnel and members of the Supervisory Board of the Company receive compensation in the form of short-term employee benefits and share-based payments (Note 30). For the year ended 31 December 2007 key management personnel and members of the Supervisory Board of the Company were entitled to total short-term compensation of USD 8,217 (2006: USD 16,467), including bonuses of USD 4,437 (2006: USD 7,282) and share-based payments of USD 33,111 (2006: 6,321). The compensation is made up of annual remuneration and a performance bonus depending on operating results.

30. SHARE-BASED PAYMENTS

In February and June 2007 the Group paid the cancellation fees related to the employee stock option program acquired in May 2006 with the acquisition of Pyaterochka Holding N.V. (Note 8). The amount of the cancellation fees outstanding at 31 December 2007 totalled to USD 2,389 (31 December 2006: USD 69,990) and will be paid out within a year of the balance sheet date.

In March 2007 the Group announced a new employee stock option program for its key executives and employees. The total number of share options is capped at 10,824,008 GDRs. Each option carries the right to one GDR. The program will run in four tranches that will be issued over the period to 19 May 2009. The vesting requirement of the program is the continued employment of participants.

The first and second tranches were approved for granting at 15 June 2007. The first tranche vests immediately and covers the period of service of option holders from 1 January 2007 to 15 June 2007. The second tranche will vest on 18 May 2008. The exercise price of the first grant is USD 18.00 per GDR. The exercise price of the second option tranche equals to USD 30.62 per GDR. Participants of the ESOP can exercise the share option at any time over the period from vesting till 18 November 2010.

In total, during the year ended 31 December 2007 the Group recognised expenses related to the ESOP in the amount of USD 47,708 (2006: USD 27,702). At 31 December 2007 the share-based payments liability amounted to USD 45,597 (31 December 2006: USD 69,990). Equity component was effectively zero at 31 December 2007 (2006: zero).

Details of the share options outstanding during year ended 31 December 2007 are as follows:

	Number of share options	Weighted average exercise price, USD	Weighted average share price, USD
Outstanding at the beginning of the year	-	-	
Granted during the year	4,198,000	26.4	
Exercised during the year	(250,000)	18.0	36.0
Cancelled during the year	(365,000)	27.3	
Outstanding at the end of the year	**3,583,000**	**26.9**	
Exercisable at 31 December 2007	1,145,000	18.0	

The total intrinsic value of vested share options amounted to USD 21,183 as at 31 December 2007.

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options, being 18 November 2010, due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 31 December 2007 were as follows:

GDR price at 31 December 2007	36.5
Expected volatility	35.8%
Risk-free interest rate	5.44%
Dividend yield	0%

31. INCOME TAX

	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax charge	120,814	63,660
Deferred income tax benefit	(21,889)	(27,598)
Income tax charge for the year	**98,925**	**36,062**

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before taxation	242,673	120,274
Theoretical tax at the effective statutory rates *	58,242	28,856
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates	(11,241)	(15,688)
Inventory shrinkage expenses	33,862	6,937
Unrecognised tax loss carryforward for the year	635	3,800
Share-based payments expenses	9,952	-
Other non-deductible expenses	7,475	5,891
Provision for uncertain tax positions (Note 35)	-	6,266
Income tax charge for the year	**98,925**	**36,062**

* Profit before taxation on Russian operations is assessed based on the statutory rate of 24%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.

Deferred income tax

Differences between financial reporting standards and taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities and their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 24% for Russian operations and of 25% for Ukrainian operations.

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2007:

	31 December 2006	Credited to profit and loss	Deferred tax on business combinations (Note 8)	Recognised in equity for translation differences	31 December 2007
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carryforward	-	16,341	-	372	16,713
Property, plant and equipment	7,675	(676)	-	530	7,529
Intangible assets	-	51	-	2	53
Accounts Receivable	5,775	5,853	-	666	12,294
Liability for share based expenses	16,284	(16,214)	-	503	573
Other	8,650	8,575	694	1,793	19,712
Gross deferred tax asset	**38,384**	**13,930**	**694**	**3,866**	**56,874**
Less offsetting with deferred tax liabilities	(19,758)	(6,829)	-	(1,930)	(28,517)
Recognised deferred tax asset	**18,626**	**7,101**	**694**	**1,936**	**28,357**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(84,545)	4,151	(38,587)	(5,822)	(124,803)
Intangible assets	(112,817)	13,080	(788)	(7,562)	(108,087)
Accounts Receivable	-	(3,222)	-	(76)	(3,298)
Other	-	(6,050)	(206)	(174)	(6,430)
Gross deferred tax liability	**(197,362)**	**7,959**	**(39,581)**	**(13,634)**	**(242,618)**
Less offsetting with deferred tax assets	19,758	6,829	-	1,930	28,517
Recognised deferred tax liability	**(177,604)**	**14,788**	**(39,581)**	**(11,704)**	**(214,101)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 276,742 (2006: USD 162,573) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

The current portion of the deferred tax liability amounted to USD 23,289 (31 December 2006: USD 13,420), the current portion of the deferred tax asset amounted to USD 7,580 (31 December 2006: USD 17,467).

Management believes that future taxable profits in tax jurisdictions that suffered loss in current or preceding years will be available to utilise recognised in the current period deferred tax asset of USD 16,341 for the carryforward of unused tax loss.

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2006:

	31 December 2005	Charged to profit and loss	Deferred tax on business combinations	Deferred tax asset in disposed subsidiaries	Recognised in equity for translation differences	31 December 2006
Tax effects of deductible temporary differences and tax loss carryforwards:						
Tax losses available for carryforward	1,269	(1,343)	-	-	74	-
Property, plant and equipment	-	3,468	4,090	-	117	7,675
Accounts Receivable	3,001	1,245	1,170	-	359	5,775
Liability for share based expenses	-	16,284	-	-	-	16,284
Other	(1,131)	2,591	6,710	(76)	556	8,650
Gross deferred tax asset	**3,139**	**22,245**	**11,970**	**(76)**	**1,106**	**38,384**
Less offsetting with deferred tax liabilities	(3,139)	(5,962)	(10,337)	76	(396)	(19,758)
Recognised deferred tax asset	**-**	**16,283**	**1,633**	**-**	**710**	**18,626**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(14,764)	1,522	(68,718)	-	(2,585)	(84,545)
Intangible assets	(5,049)	3,831	(109,053)	-	(2,546)	(112,817)
Gross deferred tax liability	**(19,813)**	**5,353**	**(177,771)**	**-**	**(5,131)**	**(197,362)**
Less offsetting with deferred tax assets	3,139	5,962	10,337	(76)	396	19,758
Recognised deferred tax liability	**(16,674)**	**11,315**	**(167,434)**	**(76)**	**(4,735)**	**(177,604)**

32. FINANCIAL RISKS MANAGEMENT

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical and liquidity rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk management is carried out by a central treasury department (Group Treasury). Group Treasury monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance. In this connection the Group uses certain derivative financial instruments to mitigate financial risk exposures. These instruments are primarily intended to cap risks associated with the most significant foreign currency denominated long-term borrowings.

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 20). Therefore the Group Treasury's risk management policy is primarily to hedge anticipated cash outflows associated with borrowings in US dollar. The Group used foreign exchange collars with leading banking institutions to hedge currency risks associated with syndicated loan (Note 20), however, there were none of these instruments at 31 December 2007. The loss on the foreign exchange collars amounted to USD 35,650 (Note 28). The new syndicated loan for USD 1,100,000 was hedged against currency risk in February 2008 (Note 20).

At 31 December 2007, if the Russian Rouble had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 34,426 (31 December 2006: USD 18,144) lower/higher, mainly as a result of foreign exchange losses/gains on US dollar denominated borrowings.

Interest rates risk
As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. It is the Group policy to manage cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

In 2007 the Group used an interest rate swap with leading banking institutions to hedge the interest rate of USD denominated loans. The effect of the swap on profit or loss of 2007 was insignificant. The new syndicated loan for USD 1,100,000 was hedged against interest rate risk in February 2008 (Note 20). However management did not formally designate interest rate swap as hedging instruments and did not apply hedge accounting.

As a result of using interest rate swaps change in market interest rates with all other variables held constant would not significantly affect post-tax profit of the Group. At 31 December 2007, if LIBOR at that date had been 50 basis points lower/higher with all other variables held constant, post-tax profit for the year would have been USD 1,362 (31 December 2006: USD 253) lower/higher.

(b) Credit risk
Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables (Note 10 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group has no significant concentration of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default. The Group has policies in place to ensure that in case of credit sales of products and services to wholesales customers only those with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant.

(c) Liquidity risk
Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the Group Treasury.

Management monitors monthly rolling forecasts of the Group's cash flows. The Group manages liquidity requirements by the use of both short- and long-term projections and by maintaining the availability of funding from an adequate amount of committed credit facilities.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date at spot foreign exchange rates:

	Year ended 31 December 2007			
	During 1 year	**In 1 to 3 years**	**In 3 to 5 years**	**After 5 years**
Borrowings	374,030	1,665,661	-	-
Trade payables	968,505	-	-	-
Gross finance lease liabilities	2,145	1,181	-	-
Other finance liabilities	144,844	-	-	
	1,489,524	**1,666,842**	-	-

	Year ended 31 December 2007			
	During 1 year	In 1 to 3 years	In 3 to 5 years	After 5 years
Borrowings	315,256	1,057,716	-	-
Trade payables	552,060	-	-	-
Gross finance lease liabilities	2,271	2,913	-	-
Other finance liabilities	113,660	-	-	-
	983,247	**1,060,629**	**-**	**-**

At 31 December 2007 the Group has negative working capital of USD 690,820 (31 December 2006: USD 436,521) including short-term borrowings of USD 253,733 (31 December 2006: USD 218,013).

At 31 December 2007 the Group had available bank credit lines of USD 330,965 (31 December 2006: nil).

The Group plans to issue up to RUR 16 billion (USD 651,832 at spot foreign exchange rate) callable bonds in 2 tranches during 2008 to refinance the Group's existing debt and fund its store expansion.

Management considers that the available credit lines and expected operating cash flows are sufficient to finance the Group's current operations.

33. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages total equity attributable to equity holders recognised under IFRS requirements.

Simultaneously, the Group maintains optimal capital structure by tracing certain capital requirements based on ratios. The ratios are maximum level of Debt/EBITDA, minimum level of EBITDA/Interest expense, minimum level of EBITDAR/Fixed costs and maximum level of capital expenditure. These ratios are included as covenants into new loan agreements (Note 20). The Group is in compliance with externally imposed capital requirements.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques. Carrying amounts of trade and other payables approximate fair values.

The fair value of X5 Finance bonds traded on the MICEX is determined based on active market quotations and amounted to USD 360,936 at 31 December 2007 (31 December 2006: nil). The carrying value of these bonds amounted to USD 364,763 at 31 December 2007 (31 December 2006: nil) (Note 20).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value is determined based on quoted market prices or valuation techniques (Note 18).

35. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2007, the Group operated 491 stores through rented premises (31 December 2006: 353). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and denominated in USD. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable fees. Substantially all of the lease agreements have an option that enables the Group to cancel agreement at mutual concord of the parties involved.

The future minimum lease payments under non-cancellable operating leases of property are as follows (net of VAT):

	31 December 2007	31 December 2006
During 1 year	99,786	65,199
In 2 to 5 years	276,653	184,936
Thereafter	196,868	116,244
	573,307	**366,379**

Capital expenditure commitments

At 31 December 2007 the Group contracted for capital expenditure of USD 131,964 (net of VAT) (2006: USD 81,375).

Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. However management assess that the Group's financial position is not currently affected by the consequences of deterioration in the liquidity of the financial markets and their increased volatility.

Legal contingencies

In the normal course of business the Group is involved in periodic legal cases. Management does not anticipate any material negative impact on the resolution of these cases.

Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced on 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from inter-company transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

Russian tax legislation does not provide definitive guidance in many areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management estimates that possible exposure in relation to profit tax and other non-profit tax risks such as inter-company transactions, VAT and employee related taxes, that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the balance sheet at that date (and potentially in excess of the Group's profit before tax for the year). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability. At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 75,671 at 31 December 2007 (31 December 2006: USD 55,773) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2006	**8,000**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 8)	40,000
Additional liabilities recorded during the year	7,773
Reversals of prior year – accruals	-
Balance at 31 December 2006	**55,773**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 8)	15,560
Translation movement	4,338
Balance at 31 December 2007	**75,671**

36. SUBSEQUENT EVENTS

Karusel acquisition

The Group has sent an Option Notice (the Notice) to the shareholders of Formata Holding B.V. (Formata) on execution of its rights under a Call Option Agreement with respect to the purchase of 100% of the shares of Formata (the Option Shares). Formata owns the Karusel hypermarket chain. The Notice is irrevocable. Supervisory Board has approved the acquisition of 100% of the shares in Formata subject to satisfactory due diligence on Karusel and receipt of the Federal Antimonopoly Service approval.

Following receipt of the Notice by Formata's shareholders, the Group has carried out due diligence on Formata's legal, tax, financial, business, real estate standing, etc.

Completion of the Call Option, assuming the above conditions are fulfilled, must take place by the 1 July 2008.

The amount payable by the Group is calculated based on the acquiree's sales, EBITDA and debt. No less than 75% of the Option Price is payable in cash, while the remaining amount can be settled by newly issued shares of the Group.

Business combination in the Perm region

In March 2008 the Group signed an agreement to acquire 100% of the business and assets of Kama Retail company – a Pyaterochka franchisee in the Perm region, for a total consideration of approximately USD 18,000, including debt.

The Company closed the deal in April 2008. The Group acquired a total of 28 soft discounters in Perm and the Perm region with a selling area of 9.3 thousand sq.m. The total area of purchased stores is 19.9 thousand sq.m. The Group plans to assess fair value of assets and liabilities acquired as well as consideration paid to be used in purchase accounting of the business combination.

Rights offering

The Group completed an offering of rights to acquire Global Depositary Receipts ("GDRs") (the "Offering"), following the decision of the Supervisory Board based on the authorisation by the Extraordinary General Meeting of Shareholders.

The Offering comprised an offering of rights to acquire 2 new GDRs ("New GDRs") for every 9 existing GDRs held by holders of GDRs on 18 April 2008 (the "Record Date"). In total, 48,106,700 New GDRs have been issued. Each GDR represents 0.25 of an ordinary share of the Company. The subscription price (the "Rights Subscription price") for the New GDRs was USD 21.32 per New GDR (including the Depository's issuance fee of USD 0.05 per new GDR).

As a result of the Offering, rights to acquire a total of 46,421,996 GDRs were exercised by existing shareholders out of a possible 48,106,700 GDRs, representing 96.5% of the number of GDRs available in the Offering.

The unsubscribed GDRs (the "Rump Offering") in the amount of 1,684,704 were placed by the Underwriters through a process of book-building at a price of USD 35.0 per GDR, raising total gross proceeds of USD 58.97 million. Out of this amount:

- Gross proceeds to the Company totaled USD 35.92 million based on the price of USD 21.32 per GDR (the Rights Subscription price of USD 21.37 per GDR less the Depository's issuance fee of USD 0.05 per GDR).
- An amount of USD 22.96 million (determined on the basis of the difference between the Rump Offering price of USD 35.0 per GDR and the Rights Subscription price of USD 21.37 per GDR) less taxes applicable to the Rump Offering, if any, is to be paid to certain GDR holders pro-rata on the basis of unsubscribed GDRs in the Rights Offering. GDR holders who are entitled to this excess payment are those who chose not to participate or who were not eligible to participate in the Rights Offering and GDR holders who subscribed for only a portion of their GDR entitlement under the Rights Offering.

The total gross proceeds to the Company from the Rights Offering and the Rump Offering amounted to USD 1,026 million. The Company intends to use these proceeds to fund the cash portion of the purchase price for Formata Holding B.V., the owner of the Karusel hypermarket chain ("Karusel"), and associated rebranding, restyling and integration costs.

The Company also sold all of its 3,769,113 GDRs held as Treasury Stock in conjunction with the Rump Offering and at the same price (USD 35.0 per GDR), generating additional gross proceeds of USD 131.92 million.

As a result of the offerings, X5's share capital increased from 54,120,038 to 66,146,713 issued ordinary shares that are equivalent to 264,586,852 GDRs.

Company Financial Statements

X5 Retail Group N.V.
Company Balance Sheet of X5 Retail Group N.V.
Year ended 31 December 2007 *(expressed in thousands of US Dollars, unless otherwise stated)*

(before appropriation of net result)	Note	31 December 2007	31 December 2006
ASSETS			
Fixed assets			
Financial fixed assets	38	2,285,304	1,935,662
Current assets			
Deferred tax assets		7,827	-
Amounts due from subsidiaries		44,587	18,882
Prepayments		1,237	13,084
Cash		779	578
		54,430	32,544
Total assets		**2,339,734**	**1,968,206**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid up and called up share capital	39	79,226	71,196
Share premium account		1,217,341	1,104,453
Other reserves		1,985	(126)
Unappropriated loss of the year		(31,990)	(5,392)
Currency translation reserve		(13,485)	(5,257)
Total equity		**1,253,077**	**1,164,874**
Long-term liabilities			
Bank loans	40	1,083,226	784,197
		1,083,226	784,197
Current liabilities			
Amounts due to subsidiaries	41	-	6,568
Accrued expenses		3,431	12,567
		3,431	19,135
Total equity and liabilities		**2,339,734**	**1,968,206**

X5 Retail Group N.V.
Company Income Statement of X5 Retail Group N.V.
Year ended 31 December 2007 *(expressed in thousands of US Dollars, unless otherwise stated)*

	Note	31 December 2007	31 December 2006
Share in results after participation after tax		0	400
Other income and expenses after tax	42	(31,989)	(5,792)
Result after taxation		**(31,989)**	**(5,392)**

37. ACCOUNTING PRINCIPLES

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in The Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code. The financial statements of the Company are prepared based on Dutch GAAP, unless stated otherwise below, the Dutch GAAP accounting principles applied for the entity accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to Note 2 to the Consolidated Financial Statements). The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission. Consequently the consolidated financial statements of the group for the year ending 31 December 2007 have been prepared accordingly.

In accordance with Section 362 paragraph 7, Part 9 of Book 2 of the Dutch Civil Code, the presentation currency in the annual report is USD as a result of the international bifurcation of the company. As the company exploits Russian supermarkets, the functional currency of the company is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Reference is made to section 2.5 (a) of the notes to the Consolidated Financial Statements with regard to the accounting policy in regard of the translation from functional currency to presentation currency.

Financial fixed assets
Due to the international structure of the company, the participations in group companies are valued at historical cost. Provisions for impairment are taken into account when necessary.

On 18 May 2006 the entirety of the share capital of Perekrestok Holdings Limited was contributed to the Company which is the deemed cost under Dutch GAAP.

Shareholders' Equity
Issued and paid up share capital, which is denominated in Euro, is restated into Russian Rouble at the exchange rate as of balance date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled with the currency translation adjustment reserve.

38. FINANCIAL FIXED ASSETS

a. Movements in the interests in group companies have been as follows:

	31 December 2007	31 December 2006
Opening balance	1,481,539	113,300
Acquisitions/informal capital contribution	-	1,368,239
Other movements/foreign exchange differences	153,900	0
Closing balance	**1,635,439**	**1,481,539**

A complete list of group companies has been disclosed in the consolidated financial statements.

b. Movements in the loans to group entities have been as follows:

	31 December 2007	31 December 2006
Opening balance	454,123	-
Acquisitions/informal capital contribution	187,891	461,974
Other movements/foreign exchange differences	7,851	(7,851)
Closing balance	**649,865**	**454,123**

The long-term loans to group entities comprise of loans provided to Speak Global Ltd., Alpegru Ltd. and Grasswell Ltd., all direct and indirect subsidiaries of the Company. The loans have not been secured, attract 10.5 % -12.5 % interest per annum. The loans to Alpegru Ltd. and Grasswell Ltd. mature in November 2009, the loan to Speak Global Ltd. matures in March 2010.

	31 December 2007	31 December 2006
Total Financial fixed assets	**2,285,304**	**1,935,662**

39. SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Unappropriated results	Currency translation adjustment	Total
Balance as per 01.01.2006	45,497	59,607	5,312	(5,760)	1,062	105,718
Contribution of subsidiary	20,209	1,044,339	-	-	-	1,064,548
Transfer	-	-	(5,760)	5,760	-	-
Currency translation adj.	5,490	507	322	-	(6,319)	-
Result for the period	-	-	-	(5,392)	-	(5,392)
Balance as per 01.01.2007	71,196	1,104,453	(126)	(5,392)	(5,257)	1,164,874
Contribution of subsidiary	-	-	-	-	-	-
Transfer	-	-	(5,392)	5,392	-	-
Currency translation adj.	8,030	112,888	7,503	-	(8,228)	120,193
Result for the period	-	-	-	(31,990)	-	(31,990)
Balance as per 31.12.2007	**79,226**	**1,217,341**	**1,985**	**(31,990)**	**(13,485)**	**1,253,077**

Statutory undistributable reserve is maintained for currency translation adjustment recorded as the result of the translation between functional and presentation currencies.

Movements in the differences between the company and consolidated equity and profit/loss in the financial year are as follows:

	31 December 2007	31 December 2006
Equity per Company financial statements	1,253,077	1,164,874
Revaluation reserve re PP&E only in consolidated financial statements	27,847	27,847
Increase in share premium not in consolidated financial statements	(58,188)	(58,188)
Distribution to shareholders only in consolidated financial statements	(59,635)	(59,635)
Historical result of group	269,962	180,358
Acquisition of treasury shares	(5,048)	-
Acquisition of subsidiaries	220	-
Results from subsidiaries for the year	176,130	89,604
Currency exchange differences	110,177	16,052
Equity change as an effect of reverse acquisition transaction	1,529,125	1,529,125
Equity per consolidated financial statements	**3,243,667**	**2,890,037**

Difference in profit/loss

	31 December 2007	31 December 2006
Loss according to company annual accounts	(31,990)	(5,392)
Results from subsidiaries for the year	175,738	89,604
Profit according to consolidated annual accounts	**143,748**	**84,212**

Share capital issued

The authorised share capital of the Company amounts to EUR 190,000,000 divided into 190,000,000 shares of EUR 1 each.

Perekrestok Holdings Limited was contributed in 2006 against an issuance of 15,813,253 shares of EUR 1 and a payment of share premium in the amount of USD 1,044,338,854.

As at 31 December 2007, the issued and paid-up share capital amounts to EUR 54,120,038 and consists of 54,120,038 shares of EUR 1 each (2005: 54,120,038 shares of each EUR 1). This has been recalculated into USD with an exchange rate of 1 EUR = 1,4639 USD (2006: 1 EUR = 1,3185 USD).

40. BANK LOANS

Movement in the bank loans have been as follows:

	31 December 2007	31 December 2006
Opening balance	784,197	-
Paid	(800,000)	-
Received	1,083,226	800,000
Currency rate exchange differences	15,803	(15,803)
Closing balance	**1,083,226**	**784,197**

The bank loans comprise of a syndicated loan from a consortium of banks. The loans have been secured, attract LIBOR + 2.25% interest per annum for the first year. Subsequently, the margin will move in accordance with a Net Debt/EBITDA grid with a maximum margin at the top of the grid of 2.0% per annum over LIBOR. In this respect reference is made to note 20 of the Consolidated Financial Statements. Redemption shall take place as follows:

In the year 2010:	USD 1,100 million
Total	**USD 1,100 million**

41. SHORT-TERM LIABILITIES

The short-term liabilities as at 31 December 2006 comprise of a loan payable to Speak Global Ltd., a subsidiary. The loan has not been secured, matured at July 2006 and bears interest of 3% per annum. The loan has been fully repaid in 2007.

42. OTHER INCOME AND EXPENSES AFTER TAX

	Note	31 December 2007	31 December 2006
Interest income from subsidiaries		(46,332)	(23,431)
Interest expenses		65,640	33,006
General and administrative expenses		7,823	9,662
Mark-to-market result on foreign exchange collar		35,650	-
Currency exchange rate gain		(22,964)	(8,451)
Deferred income tax credit	43	(7,827)	(4,994)
Total other income and expenses after tax		**31,990**	**5,792**

43. INCOME TAX EXPENSE

	31 December 2007	31 December 2006
Operating income	31,990	5,792
Deferred income tax credit	(7,827)	(4,994)
Effective tax rate	24%	86%
Applicable tax rate	25%	25%

The effective tax rate differs from the applicable tax rate due to deferred income tax asset recognised in respect of losses for the 2006-2007 financial years and currency exchange rate gain that is not tax deductible. The effective tax rate differs from last year's rate due to reversal of tax liability in 2006 and non-recognition of deferred income tax assets in respect of losses for the 2006 financial year.

Recognised and unrecognised recoverable temporary differences and tax losses can be broken down as follows:

	31 December 2007			31 December 2006		
	Recognised under financial assets	Recognised under current assets	Not recognised	Recognised under financial assets	Recognised under current assets	Not recognised
Tax losses	-	31,310	15,093	-	-	19,222
Deferred tax asset at 25% tax rate	-	7,827	-	-	-	-

Where the unrecognised tax losses are concerned, it is not (yet) probable that these may be utilised against future taxable profits or set off against other tax liabilities.

44. STATUTORY DIRECTORS

The remuneration of statutory directors paid through the Company and through interests in group companies is disclosed as follows. Further reference is made to note 29 and 30 in the consolidated financial statements.

	Base salary 2007	Bonus 2007	Share based payments 2007	
L. Khasis	1,123	2,750	23,873	
V. Podolskiy	756	800	4,500	
A. Gusev	295	409	3,949	Resigned 15 June 2007
P.B. Musial	198	0	0	Resigned 15 June 2007
O. Vysotsky	252	341	182	Resigned 15 June 2007
A. Li	252	123	72	Resigned 15 June 2007
W.G. Rieff	29	0	0	Resigned 5 November 2007
F. Lhoest	48	14	0	Appointed 5 November 2007
	2,953	**4,437**	**32,576**	

Company accounts payable include salaries and bonuses payable to statutory directors of USD 452 (2006: USD 2,080).

45. STAFF NUMBERS AND EMPLOYMENT COSTS

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

46. CONTINGENT RIGHTS & LIABILITIES

Reference is made to the commitments and contingencies as disclosed in note 35 in the consolidated financial statements.

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Group has the following guarantees issued under obligations of its subsidiaries:

	31 December 2007	31 December 2006
Guarantee issued to Barclays Bank Plc.	122,219	-
Guarantee issued to Commerzbank	90,500	-
Irrevocable offer to holders of X5 Finance bonds	364,763	-
Irrevocable offer to holders of Pyaterochka Finance bonds	15,261	182,257

47. RELATED-PARTY TRANSACTIONS

Statutory directors compensation

Statutory directors compensation is disclosed in Note 44.

Amsterdam, 16 May 2008

Managing Directors:	Supervisory Directors:
L. Khasis	H. Defforey
	M. Fridman
E. Kornilov	D.A. Gould
	A. Savin
F. Lhoest	C. Criado-Perez Trefault
	V. Ashurkov

Other Information

X5 Retail Group N.V.
Other Information
Year ended 31 December 2007 *(expressed in thousands of US Dollars, unless otherwise stated)*

Auditors report

The auditor's report is included on the page 128.

Statutory Profit Appropriation

In Article 28 of the company statutory regulations the following has been stated concerning the appropriation of result:

On proposal of the Supervisory Board, the General meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

Proposed appropriation of profit

	2007
Loss for the year added to other reserves	31,990

It will be proposed to transfer the loss to the other reserves.

Subsequent events

Karusel acquisition

The Group has sent an Option Notice (the Notice) to the shareholders of Formata Holding B.V. (Formata) on execution of its rights under a Call Option Agreement with respect to the purchase of 100% of the shares of Formata (the Option Shares). Formata owns the Karusel hypermarket chain. The Notice is irrevocable. Supervisory Board has approved the acquisition of 100% of the shares in Formata subject to satisfactory due diligence on Karusel and receipt of the Federal Antimonopoly Service approval.

Following receipt of the Notice by Formata's shareholders, the Group has carried out due diligence on Formata's legal, tax, financial, business, real estate standing, etc.

Completion of the Call Option, assuming the above conditions are fulfilled, must take place by the 1 July 2008.

The amount payable by the Group is calculated based on the acquiree's sales, EBITDA and debt. No less than 75% of the Option Price is payable in cash, while the remaining amount can be settled by newly issued shares of the Group.

Business combination in the Perm region

In March 2008 the Group signed an agreement to acquire 100% of the business and assets of Kama Retail company – a Pyaterochka franchisee in the Perm region, for a total consideration of approximately USD 18,000, including debt.

The Group closed the deal in April 2008. The Group acquired a total of 28 soft discounters in Perm and the Perm region with a selling area of 9.3 thousand sq.m. The total area of purchased stores is 19.9 thousand sq.m. The Group plans to assess fair value of assets and liabilities acquired as well as consideration paid to be used in purchase accounting of the business combination.

Rights offering

The Group completed an offering of rights to acquire Global Depositary Receipts ("GDRs") (the "Offering"), following the decision of the Supervisory Board based on the authorisation by the Extraordinary General Meeting of Shareholders.

The Offering comprised an offering of rights to acquire 2 new GDRs ("New GDRs") for every 9 existing GDRs held by holders of GDRs on 18 April 2008 (the "Record Date"). In total, 48,106,700 New GDRs have been issued. Each GDR represents 0.25 of an ordinary share of the Company. The subscription price (the "Rights Subscription price") for the New GDRs was USD 21.32 per New GDR (including the Depository's issuance fee of USD 0.05 per new GDR).

As a result of the Offering, rights to acquire a total of 46,421,996 GDRs were exercised by existing shareholders out of a possible 48,106,700 GDRs, representing 96.5% of the number of GDRs available in the Offering.

The unsubscribed GDRs (the "Rump Offering") in the amount of 1,684,704 were placed by the Underwriters through a process of book-building at a price of USD 35.0 per GDR, raising total gross proceeds of USD 58.97 million. Out of this amount:

- Gross proceeds to the Company totaled USD 35.92 million based on the price of USD 21.32 per GDR (the Rights Subscription price of USD 21.37 per GDR less the Depository's issuance fee of USD 0.05 per GDR).
- An amount of USD 22.96 million (determined on the basis of the difference between the Rump Offering price of USD 35.0 per GDR and the Rights Subscription price of USD 21.37 per GDR) less taxes applicable to the Rump Offering, if any, is to be paid to certain GDR holders pro-rata on the basis of unsubscribed GDRs in the Rights Offering. GDR holders who are entitled to this excess payment are those who chose not to participate or who were not eligible to participate in the Rights Offering and GDR holders who subscribed for only a portion of their GDR entitlement under the Rights Offering.

The total gross proceeds to the Company from the Rights Offering and the Rump Offering amounted to USD 1,026 million. The Company intends to use these proceeds to fund the cash portion of the purchase price for Formata Holding B.V., the owner of the Karusel hypermarket chain ("Karusel"), and associated rebranding, restyling and integration costs.

The Company also sold all of its 3,769,113 GDRs held as Treasury Stock in conjunction with the Rump Offering and at the same price (USD 35.0 per GDR), generating additional gross proceeds of USD 131.92 million.

As a result of the offerings, X5's share capital increased from 54,120,038 to 66,146,713 issued ordinary shares that are equivalent to 264,586,852 GDRs.

Auditor's Report

To the General Meeting of Shareholders of X5 Retail Group N.V.

Report on the financial statements

We have audited the financial statements of X5 Retail Group N.V., Amsterdam, for the year ended 31 December 2007 as set out on pages 68 to 125. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the company income statement for the year then ended and the notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Executive Board Report set out on pages 12 – 40, 42 – 54 and 63 in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements, set out on pages 68 – 118, give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements, set out on pages 119 – 125, give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Executive Board Report set out on pages 12 – 40, 42 – 54 and 63 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 20 May 2008
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA

X5 RETAIL GROUP

Contact Information

Statutory Address:
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands

Office Address:
Parkstraat 20
2514 JK The Hague
The Netherlands
Tel. +31.70.3105080
Fax +31.70.3105088

Corporate Center:
28 Srednyaya Kalitnikovskaya str., bld.4
Moscow,109029
Russia
Tel.: +7 (495) 662-88-88, +7 (495) 789-95-95
Fax: +7 (495) 662-88-88, ext. 41-265

www.x5.ru